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How the New Deal "Protects" the Public Utility Investor

One group of citizens who cannot say they are better off

THE author concludes that it is very difficult to square public declarations of New Dealers that they intend to protect the owners of public utility securities with their public acts in which he believes advantage is taken of the covert threat of Federal competition in order to force a sale of utility property at a hard price which the owners would not voluntarily take for their holdings.

BY JAMES C. DELONG

IT is becoming increasingly difficult to square the fundamental policies of the New Dealers with their public utterances. As we drift closer and closer to state Socialism, those in authority vigorously protest that property rights of the citizen will be preserved. Are they not kidding the public, and perhaps themselves as well?

Some two years ago the Chief Executive, in his Portland, Oregon, speech, said: "I seek to protect both the consumer and the investor." On several occasions, David E. Lilienthal of the TVA has publicly reassured investors in utility securities. In commenting on the subject to members of the National Association of Mutual Savings Banks at their convention in New York city on May 17, 1934, Mr. Lilienthal said:

> The protection of the investor is a matter of immediate concern to your National Government. . . . Under this new policy (TVA) prudent investment in useful property will not only be respected but protected.

The reassurances of the New Deal-

ers have added few dollars to the pockets of utility investors. Despite signs of recovery in the electric utility industry, market prices of these utility issues merrily proceed on their downward course. For these citizens, the economic depression is assuming a more and more ominous aspect. There is little doubt where these people stand on the question: "Are you better off today than you were one year ago?"

A year ago market value of all utility issues listed on the New York Stock Exchange was $6,240,000,000. Today these same issues have an aggregate market value of $5,662,000,000. Holders of these stocks are some $578,000,000 nearer to the poorhouse than they were at this time last year.

LET us cite a more specific example. One year ago the market value of the common stock of a New York utility company was $619,000,000. Today this issue commands a market value of but $309,000,000. This represents a reduction of about 50 per cent. A year ago common stockholders were receiving dividends at the annual rate of $39,000,000. This has been reduced to $22,900,000. The 118,000 stockholders of this company are poorer by $310,000,000 than they were a year ago and their combined annual income has been reduced in the amount of $16,100,000. Of this group, 42,000 hold 10 shares or less each.

You may not be a stockholder of this company. But before you offer up thanksgiving for your good fortune or investment sagacity, let us look further into the list of stockholders. In the neighborhood of 2,000 banks and trust companies and similar institutions, scattered throughout the country, own this stock. There are 300 insurance companies that are stockholders to say nothing of the 190 charitable institutions and benevolent associations. Thus when the financial integrity of this or any other utility company is threatened or earnings depleted, more people are affected than the unfortunate stockholder.

Some months ago the writer set out to determine as accurately as possible just how many people own securities of our public utility companies. All such enterprises, except the tractions and steam railroads, were asked to furnish data on the subject. Upwards of 90 per cent of the industry responded. On the basis of this research, a record was compiled of 8,775,000 individual owners of utility stocks and bonds, exclusive of the tractions and rails. No attempt was made to eliminate duplications. Of this number, 2,500,000 are women. They come from every walk of life and from every section of the country.

FEW utility companies have gone to the trouble of determining occupations of their stockholders. Two major concerns have done this, however, and the results are shown in the table on page 713.

In both cases, housewives were found to be the largest single group of security owners, followed by employees, clerks, and professional men in the case of Company "A," and in the case of Company "B" by manual laborers, clerks, and professional men. The politician who encourages laws for the ostensible purpose of penaliz-

ing the utility baron and the "power trust" might well ponder these figures.

If we are to assume that each utility security owner has on the average of three dependents, and again making no allowance for duplication, we arrive at a figure of around 35,000,000, representing the men, women, and children who have a direct financial stake in the utility industry. This represents more than one quarter of our entire population. But this is not the whole story. Our savings banks have upwards of $600,000,000 invested in utility securities. They have 13,000,000 depositors. The life insurance companies own $1,825,000,000 of utility stocks and bonds. They have 65,000,000 policy holders. Without correction for duplication this totals to 113,000,000 people. Assuming that the elimination of duplications would reduce this number by 50 per cent to 56,500,000 we would still have an impressive total. In addition our churches are heavy investors in utility securities. So are our colleges and universities. Harvard University, the President's Alma Mater, owns $39,600,000 of utility issues, representing 36 per cent of that institution's total investments.

In view of the persistent antiutility attitude of the New Dealers, it is little wonder that spokesmen have felt constrained to offer some encouragement to utility investors, particularly as it is no longer possible to conceal the source of the industry's ills.

The solicitude of the government for utility investors has taken a curious form. At the time Mr. Lilienthal expressed the concern of the National Government for utility investors, the TVA, through Mr. Lilienthal, was negotiating for the purchase of the electric properties of the Tennessee Public Service Company. The company was an unwilling seller, but recognized the right of the people of Knoxville to serve themselves with electricity. Refusal would have resulted in the construction of a competing plant by the city, financed in large part by a gift of $600,000 from

Classes of People Who Invest in Utility Securities

	Company "A"		Company "B"	
Occupational groups	*Number of stockholders*	*Percentage of total*	*Number of stockholders*	*Percentage of total*
Employees	115,000	17.0%	.....	..
Professional	40,000	5.9	26,000	10.2%
Educational	25,000	3.7	.....	..
Clerks	90,000	13.0	31,000	11.9
Merchants	35,000	5.2	19,000	7.5
Trades and farming	25,000	3.7	.....	..
Manual laborers	30,000	4.4	45,000	17.6
Management and financial	25,000	3.7	20,000	7.8
Government employees	15,000	2.2	.....	..
Personal services	25,000	3.7	.....	..
Retired	21,000	3.0	.....	..
Housewives	210,000	30.8	106,000	41.5
Institutions	25,000	3.7	9,000	3.5
Total	681,000	100.0	256,000	100.0

the PWA and a loan of an additional $2,000,000 at 4 per cent interest. This would have ruined the private utility. Officials of the company had no bargaining power whatsoever. With them it resolved itself into the question of how much of the loaf could be salvaged for their investors. On July 17, 1934, the company decided to accept the terms of purchase proposed by Mr. Lilienthal. This called for payment of $6,203,000 for the entire electric properties of the company, exclusive of the Waterville-Kingsport transmission line.*

Under the terms of purchase, dictated by Mr. Lilienthal, holders of the company's first and refunding 5s, 1970, were asked to turn in their bonds for redemption at 96½. This was in direct violation of the bond's indenture which stipulated that call price up to October 1, 1935, would be 105. Eliminating bonded debt, the company will have cash and other quick assets equal to between $35 and $40 per share of preferred stock plus the traction properties in the city of Knoxville. Operation of the traction properties has failed to yield a profit during the past several years and it is accordingly difficult to accord them any tangible value.

LET us review, chronologically, the events leading up to consummation of this deal. On May 17th, Mr. Lilienthal laid down the principle that "The protection of the investor is a matter of immediate concern to your National Government." His remarks were widely publicized. One week later, acting for the TVA, he made an offer for the electric properties of the Tennessee Public Service Company, the substance of which is contained in the following paragraph, taken from his letter to the company:

> The Authority will pay $5,250,000 for the property in question, payable at the option of the Authority, in cash upon delivery, or with not less than $1,500,000 cash and the balance payable over a period of not over five years.

THIS figure was flatly rejected by the company on the grounds that it was inadequate to cover claims of first mortgage bondholders. A few weeks later, Mr. Lilienthal renewed his offer, but raised the ante to $6,088,000, payable in cash upon consummation of the deal. This was again rejected by the company and on July 17th purchase price was raised to $6,203,000. This, company officials felt obliged to accept.

This final figure of $6,203,000 is some $953,000 above Mr. Lilienthal's first published offer for the properties in question. Even though this represents $136 per $1,000 bond and is 18 per cent above his original offer, bondholders have been asked to turn in their holdings at $285,000 less than face value and $635,000 below call price as provided by the indenture while preferred stockholders are left with around $40 per share in quick assets and an equity in a traction property of nebulous worth. Common stock equity was completely eliminated.

IF protection of the investor is of immediate concern to the National Government, what explanation can be offered for its policy of "chiseling" in the Knoxville deal? If prudent

*Completion of the sale on the date set was rendered impossible by a court decision. If a sale is made new negotiations will be necessary.

The People's Stake in the Public Utilities

"THE rank and file in this country some day are going to awaken to the fact that they have a stake in the utility industry which far transcends the few cents per day they pay for utility services. Cheaper electricity, gas, and telephone service is a fine thing but if accomplished at the expense of the savings account or the life insurance policy, the average citizen right away will start doing some figuring of his own."

investment is to be protected, what is to be done in the way of compensating preferred stockholders who stand to lose around 60 cents on the $1 invested in this business. If Mr. Lilienthal was sincere in his remarks to the savings bank executives, what excuse has he to offer for the sharp bargain he drove in acquiring the electric properties of this company for the TVA?

In 1930, the Tennessee Public Service Company issued and sold $7,000,000 of its bonds. The bond prospectus carried the information that issuance and sale had the approval of the Tennessee Railroad and Public Utilities Commission. And so it had. In the following year, 1931, the company made a public offering of its $6 cumulative preferred stock. This issue likewise carried the approval of the commission. The citizens of the state of Tennessee invested their savings in these securities. So did people of other states. There is no doubt that the commission's stamp and its reputation for vigilance in the matter of looking after the interests of investors carried considerable weight with the investing public. It added materially to the issue's investment worth. The stock was purchased by the thrifty for income and safety.

AT the time of issuance, the preferred stock of Tennessee Public Service was a conservative investment, judged by every investment yardstick. In 1931, dividend requirements were earned more than 2½ times. Aggregate bond and preferred stock capitalization was well within the company's rate base as determined by the commission. Yet the market value of this issue today is less than 40 per cent of original price at which it was sold to the public. A once sound investment has been converted, in the short space of three years, into an undisguised speculative gamble.

When Mr. Lilienthal, on May 17th, assures investors that prudent investment in useful property will not only be respected but protected and then on July 17th, sixty days later, shears preferred stockholders of Tennessee Public Service of 60 per cent of their savings, invested in what another agency of government termed useful property, utility investors may well question the sincerity of purpose and efficacy of their public "protectors."

In the November 12, 1931, issue of PUBLIC UTILITIES FORTNIGHTLY, Mr. Harvey H. Hannah, chairman, Tennessee Railroad and Public Utilities Commission, offered an opinion in respect to the effect of state regulation on utility securities. He said:

> The utilities corporations, which are solely under state regulation, are weathering the storm better than are all other agencies of commerce and trade, and their securities have depreciated less than various other securities on the market today. This, in my opinion, grows out of the fact that the state regulatory bodies, in a vast majority of states, must under the law pass upon the issuance of bonds and stocks of these various utility corporations and these issues are always kept within the limit of sound financing and below the rate base, which is the actual valuation of the physical properties of the corporations which are used and useful in the public service. In other words, the valuation adopted for security issues reflects what the property is actually and honestly worth with all of the water squeezed out.

DURING the past several years, adequate safeguards have been thrown around the issuance and sale of securities of Tennessee utility companies. These safeguards have made ample provisions for all ordinary business risks. The commission of that state has done a good job in protecting the investor. The above statement of Commissioner Hannah lays down an admirable principle in respect to utility finance; it also indicates that the regulatory agency has been alert to its obligations to the investing public. Yet this is doubtless cold comfort to holders of Tennessee Public Service Company preferred stock. For despite the policing of the commission of that state, they have lost a major part of the money they put into what they were told by the commission was a sound investment. If present credulity gives way to skepticism, they may start asking the commission why.

There has been a growing tendency for our state regulatory agencies to assume more and more power over the utilities operating within their jurisdiction. They have been granted the right, in the majority of states, to exercise full supervision over the issuance and sale of securities of utility companies operating within the state boundaries. In assuming this function they have the dual responsibility of protecting consumers in the matter of service and rates and the investor in the matter of safety of funds invested in the business and a fair reward for the use of these funds. Having assumed these duties without protest, they cannot easily escape their full responsibilities.

IT would seem to me to be particularly important at the present time for our regulatory agencies not to allow their judgment to be influenced by the fact that the loudest wails come from the consumer's section. The present popularity of the consumer's cause is no valid basis for ignoring the rights of investors. The consumer has on his side the politician, it is true. Yet there is no moral or economic ground for this. Nor is it a fortuitous alignment. Consumers happen to outnumber investors in the ratio of about two to one. So far as the vote-seeking politician is concerned, it is a matter of simple arithmetic.

While it is probably true as in Mr. Dooley's time that the decisions of our judicial and *quasi* judicial bodies tend to follow the elections, this is equally bad law and bad politics. In

the first place the power issue is a straw man erected by temporizing office-seekers to win votes. Sooner or later the sham will be revealed to the general public and the commissions which have "gone along" with the politicians may find themselves in an uncomfortable position. Secondly, the rank and file in this country some day are going to awaken to the fact that they have a stake in the utility industry which far transcends the few cents per day they pay for utility services.

Cheaper electricity, gas, and telephone service is a fine thing but if accomplished at the expense of the savings account or the life insurance policy, the average citizen right away will start doing some figuring of his own.

It seems to me that our state regulatory agencies have adopted an altogether too complacent attitude in respect to the Federal government's power policy. The program is clearly an overt charge that state regulation has proved inadequate. The fundamental aim of this program is cheaper electricity. With this the commissions can have no quarrel. But if this objective is to be gained by leveling the entire existing utility structure and property values which the commissions themselves have helped to build within their respective state, will not the commissions be placed on the defensive? They have approved billions of dollars of operating company issues, now outstanding in the hands of the public. Does the responsibility of the commission end with the issuance and sale of these securities? I do not believe so.

Within the Muscle Shoals area, there are some $730,000,000 of operating company securities. Within the power transmission area of Grand Coulee and Bonneville on the Columbia river, investors have placed approximately $450,000,000 in private utility properties. Within the radius of 200 miles of the proposed St. Lawrence power project, utility property, capitalized at $1,212,000,000, lies. The bulk of this capital has been invested in these properties with the approval of state regulatory bodies. Now then, if the Federal government is to proceed with its policy of taking over these properties at its own figure, paying first mortgage bondholders 96½ per cent of par, leaving but a fraction of original investment for preferred stockholders and allowing nothing for common stockholders, what instrument of defense will the commissions adopt in dealing with the outraged investor?

The Federal government's power program is as much a challenge to the established public regulators as to the utilities themselves. The commissions are as surely before the bar of public opinion as are the private operators. And there can be no compromise between state and Federal regulation. Rates of the future will be determined either by a "yardstick" established by an agency or agencies of the National Government or by presently constituted tribunals of the various states.

The investor is the natural ally of the state regulatory agency which has by and large been satisfactory to him. He is suspicious of the government's experiments with "yardsticks."

Watt's All the Pother

About the small domestic customer of the electrical industry?

The little fellow, says the author, has been buying energy more cheaply all the while and is by no means as much concerned about himself as the Norris followers are concerned about him, and for a very good reason.

By JONATHAN BROOKS

IT should be timely, midst all the rumpus that has been stirred up lately over kilowatt hours, to set down a few basic and salient facts about the great electric power industry. The Norris school of engineering has the trade by the heels, and the political world by the arm, and seems hellbent on the creation of a power trust bigger and more far-reaching than any the Norris engineers have yet denounced. Only, this new trust is to be government-owned.

The development is disquieting, but it is not necessary to be as deeply alarmed as the bellwethers of the electric industry appear to be. Why? Because the industry is merely completing a giant cycle; starting anew on an endless chain. It is in the hands, once more, of the politicians, just where it was about a half century ago.

Through the ineptness of the politicians in an economic-engineering business, as much as for any other reason, the industry by and large emerged into private ownership. One of the largest holding companies of today, for instance, was founded on the wreckage of a number of boggled municipal plants. Other holding and operating companies proved havens for many other failing city and town ventures, in the eighties and nineties.

SURVIVING the (1) politico-promoters, the industry escaped from them into the control of the (2) engineers who, waving their slide rules, undertook to regiment the business and make it go forward on the double quick. It was a lusty young brat, growing fabulously, and the engineers called for help from the (3) investment bankers, to feed it the new capital it required. That was an engineering error, for once the investment bankers were in they took complete charge, and wheeled up the (4) holding company as their *tour de force,* elbowing the engineers aside.

With the depression's advent the holding company fell down in its turn, and sent out an SOS for the (5) lawyers. Their day in charge was blessedly short, for anybody could see that more laws and new interpreta-

tions of old laws were equally of no avail. So the lawyers passed out quickly in favor of the (6) commercial bankers, many of whom had begun to worry and fidget in the back rooms. And the bankers lumbered cautiously into control, bringing up reserves in the form of a horde of (7) auditors. And the auditors have dominated the industry through the most recent days of the depression.

THAT completes the seven ages of the electric industry. Or, we may say, finishes the old familiar and vicious cycle, for the politicians are once again taking hold. Decades back, they had charge in cities and, however they may have feathered their individual nests, certainly failed to advance the industry. Today they belabor it for its bigness and what they declare is its oneness of control, and reach out for it under the name of government ownership.

There should be nothing strange in this picture, for the railroads have been bandied about in the same process. So have the electric tractions, but the automobile outran them and substituted receivers for some of the other controllers. And so was the gas industry until, awhile back, it started to turn static with dry rot, or something; whereupon salesmen were rushed up in great numbers, to revive the business with modern sales methods. The only new or different thing in the electric situation is the remarkable virility of the industry, speaking now not of the bankers, lawyers, promoters, holding companies, and whatnot, but of the organized working forces that generate energy and deliver it cheaply everywhere.

THE industry has survived, and progressed despite its barnacles. It is solid, strong. In its extreme youth it confounded the politicians and escaped them on many fronts. In its maturity, if it is half as strongly organized as the conscientious Nebraska engineer avows, it can do the same thing all along one tremendous front. Why? Because it is fundamentally right on the important point upon which the Norris school of engineering persistently errs.

That point is,—the little customer who wants his electricity for his fan, his wife's iron, his newspaper reading, and his radio. Much as the Norris E. E.'s prate of the bigness of the power trust, their guiding motive is a sentimental (not to say vote-getting) feeling for the small customer. He should be able to buy energy cheaply, more cheaply, and still more cheaply. Which is fair enough. Nobody quarrels with that idea, least of all, the electric industry. The little fellow has been buying energy more cheaply all the while! I'm on what is supposed to be the sunny side of fifty, and I can remember 14-cent flat electric rates where we now have rates ranging from a 6½-cent top down to 2½ cents for all kilowatt hours over sixty used per month!

THAT change has taken place in thirty years, for example, in the city of my state where the great utility operator, Samuel Insull, first erred by adding holding company organization to his business of operating. In that city as in countless others the residence customer now has energy for his lighting, radio, ironing, washing, refrigeration, and whatnot else,

for less money than he paid for lighting alone the year Mr. Insull branched out from engineering, sales, and management, into finance. Has anything else, asking parenthetically, been as substantially reduced in price since 1904? Football tickets, meat, bananas, milk, newspapers, and many other things I seem to require are higher instead of lower!

And yet funny things have been done in the light of this fundamental truth. Candidates for the United States Senate have been nominated because of their reputation for aiding in the further reduction of those rates,—not a bad sort at all, but willing to ride into the Senate on an unnecessary program if it is popular.

We do not know yet how popular this will prove or continue to be. The politicians weigh antiutility ammunition pretty heavy; sic, the headline, Cuts Millions Off Utility Rates! But in the industry we cannot let it tip the scales so far. Why? Because the millions, loss of which hurts the utilities, of course, help the myriad small customers only a few cents each. Our small customer reads the headlines, but sees only a small difference in his next bill; then he wonders who is spoofing him! Again, most customers do not know the rates they pay; many whose bills show an average of $4\frac{1}{2}$ cents per kilowatt hour think they are paying 7 cents, if that happens to be the first block rate. Many, within a month of a reduction meaning millions to the utilities, ask why rates are never reduced. Others, noting the change, add a new piece of current-using equipment, and go ahead paying as much as before.

Too often they are not merely uninformed, but disinterested. I have sat in many rate cases that were heralded by columns of newspaper publicity, and almost invariably the small customers have stayed away in droves! Rarely does any customer, small or large, attend. Once I saw a business man at a hearing that was preceded with tremendous ballyhoo, but it turned out he was there to testify on the price of coal!

Once a city attorney, just winning his spurs as a utility baiter, said to me in disgust:

"Can you beat it? All the publicity, and nobody here but your lawyers and accountants, the commission and its staff, and myself!"

"Who should come?" I asked.

"Why, the customers who are being robbed," he replied. "But they don't seem to care,—that's what I can't understand. They don't even send lawyers to represent them!"

Well, about 30 per cent of the aver-

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age electric company's customers are minimum users, and pay only $1 a month for their service. (The $1 monthly minimum is a standard hereabout.) And for that matter, the average customer bill is only about $2! Not many customers, therefore, ever think of employing an attorney in the matter of their electric rates,—one attorney's fee would cover a hatful of electric bills!

My point in all this rambling is that the little customer is by no means as much concerned about himself as the Norris followers are concerned for him. And the reason he is not concerned is that he has fared well, and is faring better year by year, at the hands of the electric industry.

It is the contention of the Norris school of engineers that discrimination has always been shown against the small customer. Some of them complain that he pays more per kilowatt hour than the large user of power pays. Others, better informed, insist that he pays not merely more, but too much more; admitting that he should pay a somewhat higher rate for a small amount of service.

Residence customers, who number about 85 per cent of the users of electric service, require only about 15 per cent of the power output of the company serving their community. And they pay for it, usually, about 30 per cent of all the money the company collects. New public service commissioners usually, like the Norris engineers, fret over that fact. It does not seem fair, to them.

But the commissioners, who are so loudly condemned in some quarters as having failed to regulate the utilities, cannot fail to see there is nothing wrong in this procedure. Unlike the sponsors of the dam, they must really study the industry in order to minister their duties, and here is what they find,—that the small customers who use only 15 per cent of the current and pay some 30 per cent of the money, *also* require 85 per cent of the poles, 85 per cent of the wire, 85 per cent of the meters, and 85 per cent of the meter-reading effort. Moreover, they require 85 per cent of the bookkeeping, 85 per cent of the collecting work, and at least 85 per cent of the delinquent accounts botheration! The sponsors of the dam do not seem to appreciate this fact; but the operators of the dam will find it out all too soon.

Not long ago, in a rate case against a big company, I heard a new commissioner snort with disgust when a rate expert testified that in his opinion the small customer pays, not too much, but too little for his service. (This was an independent expert, never, so far as I know, connected with a company.) At the same moment I saw an ex-commissioner, present as counsel for parties observing the proceedings, smile at this lack of understanding. But since then I have seen the new commissioner in action again.

"Why do you wish to raise your monthly minimum bill from fifty cents to a dollar?" he asked the head of a municipally owned electric plant.

"Because we actually lose money on the 50-cent customer, even if he uses no energy at all," was the reply.

This time the commissioner seemed to understand, and merely nodded.

Can the Country Take It?

". . . the operating end of the electric industry will survive another joust with the politicians. The industry can take it. But can the country take it? There's a question! The country suffered in the early days for the mistakes of the politicians who got into the electric business, but it suffered by communities. This time the politicians are operating on a national scale, spending in millions where their older brothers dealt in thousands."

IT is by no means to be expected that the little customer, because he is 85 per cent in point of numbers, should pay 85 per cent of the company's or plant's revenue. But since he costs the plant more in the provision of his 15 per cent of its service, he should pay something more than 15 per cent of the revenue. Perhaps 30 per cent is too much. Maybe 25 per cent would be more nearly fair; but, on the other hand, if the point is to be whittled down fine, it may be found he really ought to be paying 40 per cent! He should not pay more than the cost of his service, in order that a large user might pay less than the cost of *his;* any more than the large customer should pay more for his service so that the small user could be charged less than his cost. Each customer should pay a rate covering the cost of his own service. In any case, no matter what proportions can be worked out, it may be predicted that any Norris plan to equalize rates merely by flattening them out on one level is not going to work.

IF the small customer is able to buy as cheaply per kilowatt hour as the manufacturer now buys, then the power vendor is going to lose money. If he lifts the manufacturer's rate before he brings the little fellow down to it, then the manufacturer will be unable to operate. His power bill amounts to dollars as against the small customer's mills.

There is nothing new in this proposition, and the politicians could see it for themselves if they were not so fondly looking at the 85 per cent of votes cast by the small customers! Anywhere about them they could see it. In my state, they would see the municipally owned plants, which have been trying the simple flattening process on rates, carrying only a 34 per cent industrial load. The biggest company in the state, on the other hand, serving no city with as many as 100,000 people and serving thousands of scattered farms, sells a 48 per cent industrial load.

THE small customer holding or seeking a job will do better to suffer what the politicians call discrimination in rates, and live in a city which does not suffer municipal ownership! For his bill does not amount

to much at most, and his job is most likely to be found in the industrial city. If he has no job, his electric service can come free, and he is no better off for it because, unfortunately, electric lights do not yet feed or clothe his family!

In my state, to carry this analysis to its conclusion, waning municipal ownership with its flattened-out rate systems and lessening industrial service, last year sold all its energy at an average of 3.114 cents per kilowatt hour. Private companies sold about eleven times as much, at an average income of 2,871 cents per kilowatt hour. Industry in this state, as elsewhere, has not been noted for depending on political management for anything as vital to its well-being as electric power. And the small customers want jobs, and the jobs are where the industries are. Given jobs, the customers will not care whether their bills for electric service are $1.87 or $2.14 per month!

To sum up, my point is that the small customer, alone or in groups, fares about as well at the hands of the privately owned company as he does in the friendly handclasp of the politician. That is putting it mildly. The least we can say is, the welfare of the small customer is no justification for turning loose the politicians or Norris plan engineers with all the money and credit in the country to make two dozen dams grow where none grew before. Or was needed!

The electric industry, hauled and mauled about by the seven pairs of hands, has proved it can take it. There is nothing to worry about on this score. It has gone right along expanding to reach little hamlets and farms with steadily, if sometimes slowly, cheapening rates. It has persistently replaced individual power plants in industry, to industry's advantage. It has pretty well proved that coal and steam are more efficient than anything but the most ideally situated, equipped, and managed hydro plants.

True, promoters, engineers, bankers, holding companies, investors, and others have suffered by the industry's growing pains; some of which those selfsame sufferers caused. But the operating factors are generally healthy, and the small customer has had not even a sympathetic ache or pain. I have lately asked twenty-one small customers in four towns of my state what their last month's electric bill was; only four knew, and one of them was a minimum, or $1, customer!

So I say the operating end of the electric industry will survive another joust with the politicians. The industry can take it. But can the country take it? There's a question! The country suffered in the early days for the mistakes of the politicians who got into the electric business, but it suffered by communities. This time the politicians are operating on a national scale, spending in millions where their older brothers dealt in thousands.

Once upon a time the Nebraska boys envisioned a network, an interconnected system of municipally owned power plants to cover the state. It did not materialize. But one of these days we shall have another phase of Norris engineering—the intercon-

nection of all these dams and power projects—Tennessee, Boulder, Grand Coulee, Platte, Upper Mississippi, and as many others as clever Congressmen can substitute for the rivers and harbors of old pork barrel days.

If there are not enough people to use the power where it is generated, move some in? Maybe. If they can't pay the rates, lower the rates? Probably. If they have no money to buy equipment to use the power, lend it to them? Most likely, for that seems to be the pattern! The salesman, sadly neglected by all the seven successive masters of the electric industry aforementioned, seems to be the politician's right-hand man these days—before there is any power to sell. That far, the politician is smart. But it is to be hoped that, for the sake of his own control or the welfare of the rest of us who, in last analysis, own these dams, he is setting up, he will be smart enough to forbid the salesman actually giving away the service!

But there will come an end, as ends come to everything. Even if it be true that regulation of utilities has failed the little fellow, this merely proves that government, state and national, was not up to the difficult task. Government will next prove that ownership is a vastly tougher job than regulation—but when will it have proved that fact?

When the 85 per cent customers who use 15 per cent of the total service find out what is going on! When the little customer who does not need protection against his electric bill shows that, despite all the Norris engineering, he does not want to migrate to a promised land of low rates in escape from rates he has not bothered to remember. When this same little fellow realizes his pay is being levied against, and his property taxes (for he may have a house or an equity in one) are growing; and, indeed, even his small electric bill being taxed, to provide these things he does not dream he needs! When, in short, he realizes they are giving him something he doesn't want, and making him help pay for it!

If Uncle Santa Claus does not hear from the little fellows in time to save the national exchequer, there is still one chance left. Surely, some of the managers employed by the politicians will realize that 100 per cent business cannot be financed and operated for the prime benefit of the 15 per cent customer. The electric industry learned long ago that it had to operate with an eye to the 85 per cent consumption factor in its total market.

¶ "The *small customer holding or seeking a job will do better to suffer what the politicians call discrimination in rates, and live in a city which does not suffer municipal ownership! For his bill does not amount to much at most, and his job is most likely to be found in the industrial city. If he has no job, his electric service can come free, and he is no better off for it because, unfortunately, electric lights do not yet feed or clothe his family!*"

By serving the 85 per cent buyer better and better all the while, it has automatically and as a by-product evolved an improved service and lower rate schedules for the millions of small customers making up the 15 per cent of the market.

LET'S hope Uncle Santa Claus, by some of his operators, learns that lesson before he spends too much of our money; before, for instance, he moves Ohio's industry down to the Senator's dam; transfers Chicago's factories to the Platte, and sends Michigan's motor plants out to the Grand Coulee. And pray it will be long before the Norris engineers begin figuring on what they can move in to fill the resultant voids in Michigan, Chicago, and Ohio—if they bother with that little problem!

And now, by way of postscript, there is just one other factor that may tend to slow the high-speed drift whitherward. If the tremendous cost to the nation fails to act as a brake, and knowledge of the business gained by the government's operators likewise does not protect us when they find out what it is all about, then our only hope lies in public revulsion toward government invasion of other industries in which the public is engaged.

A WHILE ago I was talking with a shoe merchant in a small city where there is now some agitation for public ownership of the electric business. This man inclined to favor it, and asked my views.

"I'm opposed to it in the case of the power business," I replied. "But I'm strongly in favor of the government owning all the cattle, the tanneries, the shoe factories, and the shoe stores. In 1904, I was a shoe clerk, and we sold good shoes at $3 a pair. But,—"

"They'll cost you only $4, even today!" he interrupted.

"Certainly. But in 1904 you were paying 12 cents a kilowatt hour, flat rate, for electricity; and today your bill averages a little less than 5 cents."

"Oh, but this is a private business; you're dealing in a public necessity," said the merchant.

"Yes? Every man, woman, and child I know has to have shoes, at least part of the year. In prosperous years, I have two pairs, my wife has four, my son three, and my daughter, three. That's twelve pairs or, at your $4 price, $48 a year, not counting half-soles, heels, or stitching, by way of upkeep or renewal. For shoes! Too much money, for a public necessity," I said.

"But I've got to make money myself," the shoe merchant objected. "And so has the factory, and,—"

"Be careful," I warned him, "that's the chief crime held against us. We were able to do it with 30 per cent of our customers paying us $1 a month, or $12 a year; and all our customers averaging only $2.50 a month, or $30 a year, for electricity in their homes. And look where it has gotten us—government."

"Oh, well, if you're going to get the shoe on the other foot,—er, *my* foot, —" and the shoe merchant laughed off the subject.

THERE'S my point. If, as time goes on, government ownership threatens to get on too many feet, and pinch,

maybe these feet will start kicking.

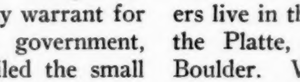
Wishful engineering talks of making electricity so cheap that every home in America can use it. More than 20,000,000 homes are now serviced with electrical energy, and that is about 68 per cent of the homes. It is an increase, in the number using current, of 25.1 per cent since 1926. They are using 37 per cent more dollars' worth of current than they did in 1926, and they are getting 75 per cent more kilowatt hours. How can they do it? Because the average price per kilowatt hour has gone down 22.9 per cent since 1926, from 7 cents to 5.4 cents. And the average domestic customer is not kicking, for he has increased his usage from 427 kilowatt hours a year to 597 kilowatt hours—39.8 per cent, at a cost of only 9.7 per cent additional.

Clearly, he has fared well, the small customer. If he fared as well with regard to his tax bills, for instance, he might even be able to forget the depression! Is there any warrant for the assumption that government, which has woefully failed the small fellow in respect of tax costs, can do any better by him than the electric industry has done and is doing?

Not, let it be understood, unless the wishful engineers throw all caution to the winds and utterly ignore the cost of producing service.

For years the electric industry, under regulation, has been forced to omit consideration of one of the two factors that usually go to make up price—worth of the service to the buyer. Its prices have rested solely on the cost of production of that service. But government, with a romantically exaggerated idea of the worth of service, will have to ignore the cost of producing service if it is to help the little fellow any more than he has been helped.

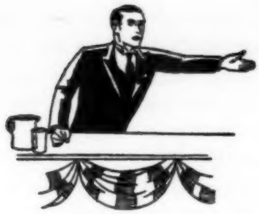
That it is willing to do so is evidenced by this fact: something like $2,000,000,000 worth of power projects are afoot, to be set up at such points that only a tiny fraction of the 30 per cent minimum users of the 15 per cent domestic power load can possibly be reached by distribution facilities! Not many of the small customers live in the neighborhood of TVA, the Platte, the Columbia river, or Boulder. Which brings up another question—if for $2,000,000,000 the wishful engineers could reach *all* the little fellows with electricity, could we afford it?



The Railroad Dollar

The net railroad operating income of the steam carriers in 1933 showed an increase as compared with 1932. Last year 15.3 cents of the railroad dollar represented net operating income, as compared to 10.4 cents in 1932. In 1931 net operating income was 12.5 cents, in 1930, 16.5 cents, and in 1929, 19.9 cents.

—Bureau of Railway Economics,
Committee on Public Relations of the Eastern Railroads.



Why Not Uniform Accounting

BY PUBLIC AND PRIVATE PLANTS?

Otherwise, in the opinion of the author, comparisons of utility rates are futile and deceptive and correct analysis and comparison of the efficiency of government and private plants impossible.

BY HARVEY S. CHASE

IF, as municipal managers claim, rates for gas or electricity or water are lower in municipally operated plants than in privately operated plants, what is the reason?

Even if we grant that the rates are lower, we must then ask if the proceeds of the lower rates provide for all the elements of cost of the product and the service. In other words, are the rates actually lower or do they merely appear to be lower because of differences in the methods of accounting for privately and publicly owned utilities? How shall we determine whether or not it actually costs more to run a public plant than it does to operate a private plant, or vice versa?

Debates over the relative merits of the two classes of utilities are usually concerned solely with comparisons of the rates which consumers have to pay for the services rendered. If the schedules of rates of a municipal plant are lower than those of a private plant, Mr. Citizen, if he is a customer of the private plant, is led to believe that he is being overcharged.

IT is possible, of course, that the rates of the private plant may be unreasonably high, but this cannot be proved by a mere comparison of rates, for rates of the government plant may be too low, even less than the cost of the service. New York city, for example, has been operating for a number of years on a municipal water rate which admittedly produces a deficit. Therefore, a showing that the New York rates are less than the rates of a privately owned plant, even if operating in a territory as large as New York city, would not prove that the rates of the private plant were excessive. It is apparent, therefore, that comparisons of rates alone do not furnish an answer to the question as to the real costs of the service; nor do they alone prove that the rates of either the publicly or privately owned plants are reasonable or unreasonable.

Accountants, economists, and members of the regulatory commissions are, of course, aware of these facts and have been for a long time, but unfortunately the rate-paying public is still in the dark. Consequently Mr. Citizen appears to be puzzled, and in the main dissatisfied with the prices demanded by privately owned companies for public utility service.

IN general Mr. Citizen believes that in privately operated companies costs are padded; that if the truth were known he should get marked reductions in his rates, and he is continually exasperated by the action of commissions and courts in sustaining rates in spite of volumes of testimony and acres of statistics showing lower rates in corresponding centers where the utilities are operated and the rates are made by the municipality.

A good illustration of this attitude on the part of the public is the demand for a Federal investigation of the rates of publicly and privately owned electric plants throughout the country. Such an investigation is being undertaken by the Federal Power Commission. The costs of this work will be heavy, while any comparisons which may be made as the result of this investigation will be of little value in determining the reasonableness of a given rate unless based upon uniform accounting methods. What Mr. Citizen wants to know is the real costs of the service to the municipal and to the private plants. This involves a great deal more than a knowledge of the rates which are charged consumers.

THE necessity for correct and uniform accounting in private utilities has long been recognized by regulatory commissions. All modern regulatory laws give the commissions the power to prescribe uniform systems of accounting for the utilities under their jurisdiction. Manifestly this power cannot be left to the private utilities themselves because, if it were, there would be no certainty that the costs would be accurately stated. Moneys derived from earnings and expended on additions to the plant might, for example, be improperly charged to operating expenses.

The accounting must be of such form as to provide for a correct analysis of the business. The ratepayers are entitled to know exactly what the investment is, what the expenses are, and how much the company is making. Correct accounting practices must be decided upon and enforced against all of the utilities.

Most of the commissions enforce uniform accounting practices in the utilities over which they have jurisdiction. Although these practices are often far from a truly scientific basis this is not the present question. It is mentioned to demonstrate that without a uniform system of accounting applied to all classes of utilities there could be no satisfactory basis for comparative analyses of the businesses of different companies.

THE same thing is true of plants owned and operated by governments. This has for a long time been recognized by experts, but is not well understood by the public even now, although as early as 1906 at a conference held by the United States Census Bureau at Washington upon "Classifications of Municipal Accounts, etc.,"

to which city auditors, comptrollers, public utility managers, certified public accountants, students and professors of civil government, and others were invited, it was said by one of the speakers:

> It is taken for granted that we all favor in principle the requirement that annual reports of municipal industries—waterworks, gas works, electric plants, and street railways—shall be published on schedules uniform with those of corresponding privately operated public service corporations; that the schedules upon which the cost of production, operation, distribution, and general expenses are exhibited should be, so far as practicable, identical in form and with the same terms meaning the same thing.

Nevertheless, many of the states have failed to compel accounting by their municipal utilities uniform with the requirements demanded of private enterprises.

LESS than half of the states that give their commissions jurisdiction over the accounting of privately owned utilities give them the same power over municipally owned utilities. This fact raises the question: Should municipal utilities accounting be placed under the jurisdiction of commissions in all states so that uniform and accurate reports from municipal and private plants could be achieved? This is a fundamentally important question.

Unless both private and public utilities are placed under the same jurisdiction so far, at least, as their methods of accounting and reporting are concerned, it will be found impracticable to compare the results and the rates charged. The difficulties in the way of such control are evident enough. Control of this sort can only be vested in a state board, the same board or commission (probably enlarged) which controls the private utility rates. Such control would be in constant dispute with the municipal authorities whose viewpoints would differ from those of the commission. Stagnation and possible litigation would ensue unless the state commissioners were sufficiently broad-minded to appreciate the city authorities' attitudes and in a fair manner to reconcile the differences although not permitting interference with uniformity and comparability in accounting and reporting by both classes of utilities.

FROM the point of view of the consumer, interested in comparisons of the two classes of utilities—public and private—attention must be given to four or five important differences in accounting technique. These arise from the diverse nature of the methods of providing capital for the enterprises and also from faulty analy-

¶ "COMPARISONS *of rates alone do not furnish an answer to the question as to the real costs of the service; nor do they alone prove that the rates of either the publicly or privately owned plants are reasonable or unreasonable. Accountants, economists, and members of the regulatory commissions are, of course, aware of these facts and have been for a long time, but unfortunately the rate-paying public is still in the dark.*"

sis of the problems involved in accounting for *operating* costs as distinct from *maintenance* costs, both of which are elements of total costs which must be provided from the rates charged to consumers.

Some years ago a committee of the American Institute of Accountants devised schedules for the purpose of exhibiting fairly comparative costs upon uniform bases for both publicly operated and privately operated utilities. The primary division of expenditure (costs) in these schedules was:

1. Expense for Manufacture;
2. Expense for Distribution; and
3. General Expense.

Each of the first two divisions was subdivided into "Expense for Operation and Expense for Maintenance." Operation is self-explanatory. Maintenance comprised all costs for repairs and renewals, *i. e.,* upkeep of plant and equipment which are paid out of current revenue.

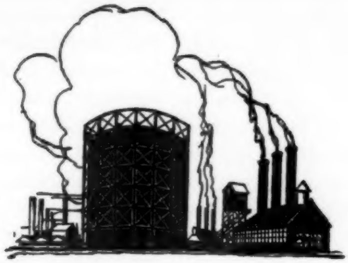
As these schedules were to apply both to public plants and to private plants, the relative costs of operation —actual running expenses—should be plainly stated as should likewise the amounts expended or laid aside for repairs including repair supplies.

WHEN upon such a basis, comparisons are made, of the costs of a publicly operated enterprise with the costs of a privately operated one, important differences immediately appear. Generally speaking, the operating costs of the public plant will be found relatively heavier than the same costs of a private plant, while the maintenance (up-keep) costs of the first may appear much less than those of the second.

It is essential, therefore, that the separation of total production costs be made into *operation* as distinct from *maintenance;* otherwise these exceedingly important differences between the costs of the private plant and those of the public plant in these particulars would not be made evident; that is to say if operation and maintenance costs were not distinctly separated in the schedules but were combined under the comprehensive title of production (manufacture) and of distribution, these primary contrasts would be hidden from the consumer and all other interested persons.

Passing to General Expense as the third primary division of the schedule, the advice of the committee was that general expense should not contain items which are sure to differ very materially between public plants and private plants, *per se;* that is to say, taxes and franchise costs are distinctly private plant charges, while sinking-fund charges are commonly only public plant payments.

RIGHT here we shall do well to consider these latter items, namely, "sinking-fund charges." Publicly operated plants are usually, one may say always, expected to earn and charge against their earnings as costs, the amounts annually laid aside to provide for the maturity of bond issues. These issues by the municipality have been made in order to provide capital for the utility under consideration, whether purchased outright from a former corporation owner, or built by the municipality itself. This brings us to a critical analysis of the questions pertaining to capital



Uniform Accounting Needed for Comparison of Public and Private Plants

"WHY should there be any real difference between a municipal plant and a private plant so far as paying for the cost of the service is concerned? These costs include not only actual operating expenses but the expense which arises through depreciation which is not taken care of by maintenance. . . . Why should the customers of municipal plants be expected to do more than that, and how can they do less, and why, therefore, should there be any difference in accounting of the two classes of utilities?

in private and public plants which is one of the questions least understood by the average consumer, and one which necessarily plays a great part in the declared *costs* of the products of the plant, thereby seriously affecting rates to the consumer.

TAKE, for instance, a public plant with a capital of $1,000,000 which was raised by the municipality by an issue of city bonds or special public utility bonds. Take, in comparison, a private plant with a $1,000,000 capital in common stock owned by stockholders. Consider first the private plant. Here is a $1,000,000 of capital intended to earn dividends for its stockholders and therefore necessarily to obtain *profits* from its products in excess of all legitimate costs. What are these legitimate costs of the private plant? Evidently, (1) costs of production (manufacturers) including both operation costs and maintenance costs; (2) costs of distribution —both operating and maintenance; (3) costs for general expense including overhead, insurance, legal expenses, etc.; (4) provisions for depreciation, for contingencies, for bad debts, etc., which are allowances made annually and carried to reserve accounts to provide for uncertain features in total costs which cannot be definitely computed, as they vary greatly from year to year.

IN these items of costs, however, there is no charge for reduction of the capital stock annually. The total $1,000,000 of capital stock con-

tinues on the books as an unchanged item. It plays no part in current expenses. No provision is required against income (revenue) to allow for reduction of this capital.

Now, take the public plant with $1,000,000 capital supplied by the issue of municipal bonds. It has no capital stock, but the municipality has, nevertheless, invested in the plant $1,000,000. Ultimately the city must pay these bonds on their maturity. The public utility, however, has no responsibility about the manner in which the city decided to raise the capital necessary to buy or build the plant. So far as its earnings and costs are concerned, this million dollars capital *in bonds* is identical with the $1,000,000 of stock in the private plant. In the latter there is no expectation or demand to reduce this capital by an annual charge against income, and similarly there should be no charge against the public plant income for reduction of the $1,000,000 capital in bonds.

There is no escape from this reasoning although in practice this most logical conclusion is abandoned and public plants are expected to reduce their capital annually by charges against income for sinking-fund reserves from which the bonds are to be paid at maturity. Evidently this attitude is unfair to the public plant and if such provisions for sinking funds are charged as elements of costs in public plants, the whole basis of comparisons of costs between its two classes of plants will be invalidated.

NOW as a corollary, there comes in the questions of depreciation and of taxation. Private plants are obliged to pay taxes, usually heavy taxes, while most public plants go scot-free in this particular. Such differences in exhibited costs are unfair to the private plant. Furthermore the private plant is required in order to preserve its capital value intact, to provide for heavy depreciation charges as elements of expense against income, while public plants are notably remiss in such matters and frequently fail to make proper provisions for deterioration, diminution, and obsolescence. If such computations and charges are omitted from a public plant's statement of costs, a comparison with private plants would be wholly unfair to the latter.

Now what does all this mean? It means, of course, standard and uniform schedules of costs for all public utilities whether privately operated or publicly operated, in which provision must be made for charges (allowances) for *taxes* in public plants on the same basis as a private plant would be taxed. Further it means standard rates for depreciation charges, private and public at the same relative costs, and again it means that public plants should not be charged for sinking-fund requirements as elements of actual operating costs.

ANOTHER difference in ordinary handling of public and private plant accounts is this: public plants do not in the great majority of cases set up a true profit-and-loss statement at the end of the fiscal year and charge therein against profits, shown by excess of income over all proper items of cost—including taxes and depreciation as described—amounts paid to the city which would correspond to

dividends in a private plant; such "public dividends" being paid over to the general fund of the city which is the sole capital provider for the municipally operated plant, corresponding to stockholders in the private plants.

From these "profits" paid over by the municipal utility the city may, if its government sees fit, apply a portion or all of these profits to provisions for sinking funds, or for the annual payments of serial bonds, thereby ultimately wiping out the bonded indebtedness in an intelligent and logical manner.

Under such a plan for cost accounting—uniform and standard for both types of plant—true comparisons can be made and correct deductions drawn in regard to the relative efficiency of the two classes of plants.

It should be said, perhaps, that while these explicit requirements for correct comparisons are not made in public plants as a rule and are not visualized even by city governments, there is a vague equalization attempted in public plants through this very scheme of charging sinking-fund reserves, or serial bonds payments, as elements of costs against income. If such debt charges annually happen to be (rarely consciously computed) about equal to what proper depreciation charges *would* be, it might be considered that as a matter of simplicity the one may be construed as offsetting the other and that by paying the debt charges the public plant has in effect paid over to the city profits of these amounts which the city has used to reduce its debts.

If this were consciously and correctly computed much might be said for it on the score of avoiding complexity in the public plant's accounts; otherwise the equality is unlikely to happen and the unfair discrimination between the types of plant would still continue.

Of course, this offset would still leave the question of tax payments to the city by the public plants unsettled. In fairness to the private plants taxes must be set up in the public plant as an element of cost and paid over to the city in cash. I see no escape from this.

Now we come to another disturbing element, which is interest on debts. Question: Is interest on public plant bonds an element of prime cost? Answer: Are dividends paid on capital stock in private plants an element of true cost? Evidently they are not an element of cost; they are distributions of profit. So, why then is interest on bond capital in public plants to be considered a charge against income as an operating cost?

Interest has relation only to the

"ACCOUNTING *must be of such form as to provide for a correct analysis of the business. The ratepayers are entitled to know exactly what the investment is, what the expenses are, and how much the company is making. Correct accounting practices must be decided upon and enforced against all of the utilities."*

manner in which capital has been provided for the plant. In the cases selected, the capital for the private plant was raised by sales of capital stock and the stockholders depend for their remuneration upon dividends which are not regular and specified but are dependent upon the outcome of the business—on profits.

Similarly interest paid upon bonds issued for a public plant's capital is not an element of production or distribution cost nor of general expense. It is, like the dividend, a capital compensation matter to be obtained from profits. Interest should not be included as an element of comparative costs of public versus private operation of public utilities.

IT is evident from this discussion that if the customers of a municipal plant have to provide for replacement of plant through depreciation and also for retirement of bonds in addition, such requirement is unjust to customers. For customers would not only be paying for the plant that was wearing out by their own use, but would be providing enough reserve to furnish future customers a plant free of cost!

Why should there be any real difference between a municipal plant and a private plant so far as paying for the cost of the service is concerned? These costs include not only actual operating expenses but the expense which arises through depreciation which is not taken care of by maintenance, in other words, the expense which is due to the consumption of the plant which is used up in the service of consumers!

Why should the customers of municipal plants be expected to do more than that, and how can they do less, and why, therefore, should there be any difference in accounting of the two classes of utilities?

ACCORDING to a bulletin issued by the Associated Industries of Oklahoma, the Seattle, Washington, power plant, which is tax free, did a $5,000,000 business in 1932—and netted only $87,000. It has a bonded indebtedness now of $32,000,000, and at the present rate of income will require 368 years to become debt free.

About twenty per cent of the plant's total income must be dug up annually by Seattle taxpayers, paying, from their city general fund, around $1,000,000 for street and public building lighting and similar municipal uses.

The plant cost $54,033,000—and, according to engineering estimates, couldn't be sold today for 20 per cent of that. The city issued $42,339,000 in bonds against the property—and has been able to redeem only $10,186,000 of them in thirty years.

Remarkable Remarks

"There never was in the world two opinions alike."
—Montaigne

James Roland Angell
President, Yale University.

"The old days of casual *laissez faire* are gone forever."

Henry Ford

"Burdening people with debt is an old deal, not a new deal."

The Literary Digest.

"From the status of a private club, a stock exchange becomes a closely regulated public utility."

Edward A. Filene
President, Wm. Filene's Sons Co., Boston, Massachusetts.

". . . the most characteristic habit of the American people is their habit of breaking their habits."

Forbes.

"Surely something can be said for a 'capitalistic' system that has enabled Washington to throw around so many billions."

Neil Carothers
Professor of Economics, Lehigh University.

"The more waggish of the economists will comment on a government that paid farmers not to produce wheat and then distributed grasshopper poison."

James M. Beck
U. S. Representative from Pennsylvania.

"When the American people depend on the state to say how much they can plough, how much they can produce, then they are no longer citizens, but subjects."

Joseph B. Eastman
Federal Coördinator of Transportation.

". . . it is entirely possible to devise a plan for public ownership and operation which will avoid many of the dangers which are commonly believed to be inherent in it."

Carl D. Thompson
Editor, Public Ownership of Public Utilities.

". . . the offer of the Federal government to aid the municipalities and, failing as it has in most cases up to the present time, to make good its promise, has delayed and for the present at least actually blocked the municipal ownership movement."

F. B. Jewett
Vice president, American Telephone & Telegraph Company.

". . . unless our present efforts are artificially restrained through short-sighted conclusions predicated on a narrow viewing of the current effects of the depression, we can very greatly extend and cheapen the facilities of electrical communication to the very great benefit of the entire social and economic structure."

What the State Commissioners Are Thinking About

Excerpts from the opinions expressed in reports and addresses at the annual convention of the National Association of Railroad and Utilities Commissioners in Washington, D. C., from November 12th to November 15th, 1934

On the Trend in Federal Regulation

"I do not doubt that within the next few years we shall see a substantial extension of regulation by the Federal government, not only over utilities, but over other lines of business, the orderly operation of which is essential in the interest of the people of the United States.

"The voters of the United States a week ago placed their unqualified seal of approval on the President's actions, including regulation in many fields in addition to utility regulation. This, it seems to me, indicates clearly that the field of regulations will be greatly broadened within the next two years."

—Commissioner Andrew R. McDonald (Wisconsin),
President, National Association of Railroad and Utilities Commissioners.

"The full story of the fight of the state commissions to secure the enactment of the Federal Communications Act in such form that it would restore instead of destroy state regulatory power reaches back five years. During all that time it has been evident that a bill creating the Communications Commission would be enacted. There was real danger that it might pass in such form as to enable the Communications Commission to emasculate state commission regulation of communications companies, just as the Interstate Commerce Commission has been enabled to emasculate state regulation of railroad rates. . . . The association representatives accordingly faced the somewhat difficult task of convincing Congress that, in setting up a new commission to do a more thorough job of regulating telephone companies than the Interstate Commerce Commission had done, it should give the new commission less power over these companies than the Interstate Commerce Commission had possessed. . . . In the end, a bill was passed which struck out of the Federal law, so far as communications companies are concerned, the Shreveport power, which has enabled the Interstate Commerce Commission to enter the state field and set aside rates prescribed for intrastate application by state commissions. Under the Communications Act nothing of that sort can happen now in the telephone field. In that field state control of intrastate rates has been restored and made absolute."

—John E. Benton,
General Solicitor for National Association of Railroad and Utilities Commissioners.

"We must be on our guard to see no further encroachments are made by the Federal government on the regulatory rights of the states."

—Commissioner Frank P. Morgan (Alabama),
Chairman, Public Utilities Rates Committee.

"There will be new attacks on the jurisdiction of state commissions from both the Republicans and the Democrats. . . .

But when state commission regulators pass from the picture all we have left is government ownership."

—FORMER COMMISSIONER KIT F. CLARDY (Michigan),
Retiring Chairman, Committee on Legislation.

"THERE has been a growing tendency for increased Federal regulation of utilites within the past few years. While we believe that each state is in a position so to treat the holding company situation as to prevent interference with regulation, it also seems to us that the Federal government can greatly aid by requiring certain holding companies to produce facts which state regulatory bodies may not be able to obtain."

—COMMISSIONER ALBERT J. STEARNS (Maine),
Chairman, Committee on Interporate Relations.

On Federal and State Regulatory Coöperation

"PUBLIC utility regulation *must* succeed. I am not prepared to say just what will happen if the present arrangement breaks down. Perhaps a demand that Congress increase Federal control would be the first step. . . . But in any event public utility regulation must succeed. . . . I see no reason why state commissioners should not talk freely with Federal commissioners on common regulatory problems. I see no reason why state commissioners cannot sit down at the same table in joint session with Federal commissioners. . . . I think we are all agreed that coöperation between state and Federal commissions shall march together. The problem before us is to determine how to march. . . . The way for state and Federal commissions to coöperate is to coöperate."

—PAUL A. WALKER,
Chairman, Telephone Division, Federal Communications Commission.

"A GREAT smoke screen has been thrown up in recent decades to confuse the popular mind as to the real interests that are in conflict in the public utility problem. Very cleverly it has been made to appear that the adverse interests were the state and Federal sovereignties. That smoke cloud is rapidly disappearing before the emerging truth that the real conflict in the public utility arena is a conflict, not between state and Federal sovereignties, but a conflict between the public interest on one hand and private financial interests on the other; the public interest represented by state and Federal sovereignties and the private interests represented by powerful financial groups that dominate the utility industry. At last the public have come to an understanding of the real contest and are demanding that the state and Federal sovereignties shall go forward shoulder to shoulder in common coöperation toward the fulfilment of a common purpose."

—FRANK R. MCNINCH,
Chairman, Federal Power Commission.

"WHEREAS, while we appreciate the aid given to our representatives during the past year by the National Administration in protecting the rights of the state regulatory bodies and the helpful spirit of many officials engaged in the Federal field where there is joint interest and jurisdiction, and while we recognize the need of coöperation on the part of state regulatory bodies where there is such joint interest and jurisdiction, we are of the opinion that there is a possibility of unnecessary attempts to assume or acquire jurisdiction by the Federal government or some branch thereof in the field of purely local and state regulation and police power.

"BE IT THEREFORE RESOLVED, that this association reiterate its stand taken in previous years in the passage of various resolutions in relation thereto, to the effect that the association is opposed to any encroachment upon the regulatory jurisdiction of the states as not being compatible with the local public interest which can best be served through agencies chosen by those whom existing problems affect."

Resolution adopted by the National Association of Railroad and Utilities Commissioners.

On Public Utility Service

"ON the whole, the question of adequate service is one that is giving utility commissions relatively little trouble and where such trouble does arise, due to the improvements made by the manufacturers in the equipment and the desire of the companies to improve their service, such complaints are easily disposed of."

—COMMISSIONER WORTH ALLEN (Colorado),
Chairman, Committee on Service of Public Utility Companies.

"WHILE service of public utilities is a matter of utmost importance to the customers, it is not a controversial question over which the general public becomes aroused. We find few newspaper and magazine articles and editorials dealing with it. With rather rare and isolated exceptions, the public is satisfied with the service which is being rendered. Of course, a number of cases arise from dissatisfaction of customers with rules, regulations, and requirements with respect to service. The local public naturally strongly opposes the complete abandonment of service, which ordinarily is sought only because of the claim by the utilities that the service is rendered at a loss."

—COMMISSIONER ALLEN.

"ONE of the many services rendered the consumer is in the case of radio interference. While some of this interference is due to the equipment of the Central Station, the majority is due to improperly adjusted appliances, condensers, or other equipment which may be installed in connection with telephone, telegraph, street railway, or other electrical operations. It is the general practice of Central Station companies to attend to all complaints of this nature, or to assist in any way possible toward the elimination of any interference."

—COMMISSIONER ALLEN.

"AMERICAN air passenger lines flew 796,950 miles per accident during the first six months of 1934. There were 27 accidents in 21,517,658 miles of flying. In 6 accidents passengers or employees of the air lines were fatally injured. The total number of passenger fatalities was 16; pilot fatalities numbered 6; co-pilots 3, and members of the airplane crew 4. In the 27 accidents 179 persons were involved,—106 suffered no injuries whatever; 34 had minor injuries; 10 had severe injuries, and there were 29 fatalities."

—COMMISSIONER FAY HARDING
(North Dakota),
Chairman, Special Committee on Air Transportation Regulation.

"THE utility consumer has recently acquired new importance in the utility picture as a result of a recently published statement of consumers' investment in equipment to utilize electricity. These figures indicate that at the close of 1933 consumers of electricity had a greater investment in devices for the absorption of electrical energy than the utilities did in plant and facilities for furnishing the service. The total investment of the utilities at the time was placed at $12,900,000,000 while the total investment of the consumers in electric equipment was $13,200,000,000. And it must not be forgotten that while part of the utilities' investment may be fictitious, every dollar invested by the consumers in electrical equipment was a dollar actually spent for such equipment."

—FRANK R. MCNINCH,
Chairman, Federal Power Commission.

On New York Power Authority Distribution Cost Report

"NEWSPAPERS throughout the nation have given it prominent display. Every one of you commissioners will have to consider it when you get home. It indicates that a general 24 per cent reduction in electric rates is in order."

—WILLIAM A. ROBERTS,
People's Counsel, District of Columbia.

On the Johnson Act

"ALTHOUGH the opposition to this legislation (Johnson Act) by utilities and affiliated interests was bitter in the extreme, in reality they have no just cause to fear its operation, for always they will have the right of review by the United States Supreme Court of the final action by the state. Utilities can hardly take the position, openly at least, that the initial court findings would be more likely to be favorable to them in the lower Federal courts than in the courts of the state and that hence they should be allowed to reach the Supreme Court by way of the lower Federal courts rather than by way of the courts of the state."

—COMMISSIONER CLYDE L. SEAVEY,
Federal Power Commissioner.

"BY far the most important practical effect of this new legislation (Johnson Act) lies in the increased responsibility, opportunity, and dignity which will attach to state regulation. No longer may the people of a state when regulation of utilities becomes unsatisfactory or breaks down shift responsibility by placing it on the lower Federal

courts. If there are undue delays in the course of court attacks on orders, the answer will be look to your state statutes. If the state courts evince an unsympathetic attitude towards regulation, that is a local matter. If the state commission is careless or inefficient, arbitrary or unfair, so that its determinations do not withstand attack, the answer will be to look to its personnel and support."

—COMMISSIONER SEAVEY.

On Transportation

"REDUCTION of transportation costs by coördinating rail, highway, water, and air carriers has been demonstrated to be both feasible and probable. . . . Surveys have shown innumerable ways in which economies in transportation service could be effected through reducing duplication. . . . Country-wide transportation systems should succeed existing separate groupings."

—JOSEPH B. EASTMAN,
Federal Coördinator of Transportation.

"IT is my purpose to again propose Federal regulation of all transportation units in the next Congress. . . . Railroad rate structures must be revised because of competition developed since basic schedules were approved. . . . Railroads will recover business, principally from long-haul traffic, for while trucks handle from 10 to 12 per cent of the country's ton mileage, they employ more men than the railroads and costs are necessarily higher."

—COÖRDINATOR EASTMAN.

"THE rates of one transportation agency should have a direct relation to the rates of another. The railroad rate between two points should be only one of a number of elements, and in no wise a controlling one, to be considered in determining a fair, reasonable, and nonprejudicial motor vehicle rate between the same points."

—WILLIAM E. LEE,
Chairman, Interstate Commerce Commission.

On Regulatory Procedure

"RATE changes should not, of course, be directed without a display of facts warranting the change; and since ordinarily under the new system the review will be premised on the record before the commission, the imperative necessity of its careful scrutiny for defects, weaknesses, and omissions is much more important than when the review was upon a newly developed record. Slipshod and careless work by the commissions will not do. The matters important to be covered by the evidence should be carefully mapped out. If reference is to be had to reports of the utility these should be made a part of the record by reference or otherwise. Too much should not be taken for granted. Untenable claims or figures should not be ignored. There should be evidence in the record upon the various factors to be considered. In short, before the state commission acts it should have before it a record upon which it is prepared to stand and defend its conclusions."

—COMMISSIONER CLYDE L. SEAVEY,
Federal Power Commission.

"IT is an interesting fact that in this (Communications) act Congress has made a complete departure from the valuation provisions of § 19a of the Interstate Commerce Act. In that act the Interstate Commerce Commission was directed to make a valuation of the property of every carrier subject to the act regardless of the occasion for its use; and in the act Congress specified in detail findings to be made as to all recognized elements of value, and directed the exact procedure to be followed. In striking contrast with that statute, the Communications Act authorizes, but does not require, the Communications Commission 'from time to time, as may be necessary for the proper administration of this act, and after opportunity for hearing, make a valuation of all or of any part of the property owned or used by any carrier subject to this act, as of such date as the commission may fix.'"

—COMMISSIONER FRED P. WOODRUFF
(Iowa),
Chairman, Committee on Valuation.

On Motor Carrier Regulation

"THE regulation and fixing of rates among the motor carriers of persons has reduced the number of irresponsible operators and has increased the business of the responsible operators, this to quite an extent the result of the bus industry providing strict rate regulation in its Code of Fair Competition adopted after inability to secure Federal legislation. Rate regulation, where made effective, had not resulted in a decrease of common carriers, and has resulted in some decrease in the number of irresponsible carriers and some increase in the tonnage and revenue of the responsible operators. Reaction of shippers to exercise of rate-making powers is generally favorable."

—COMMISSIONER ROBERT H. DUNN (Michigan),
Chairman, Special Committee on Motor Vehicle Legislation.

"IF there ever was a need in the past for proper regulation of interstate motor vehicle operation, there is all the more need for the same at the present time. Not only does this committee feel that there is a need for such regulation for the sake of transportation itself and the public as well, but it believes that the creation of the same not only will go a long way toward solving our transportation problems, but also will insure and assure a much earlier return of prosperity."

—COMMISSIONER DUNN.

"THE preservation and protection of human life is of greater consequence than commercial considerations of competition and profit. I am firmly of the opinion that there should be legislation that will bring about a proper restriction of the length, height, width, and weight of motor vehicles; a limitation of the number and size of trailers and—probably the most important of all—a requirement that only qualified and experienced drivers be permitted to operate properly equipped and regularly inspected motor vehicles, under limitations of reasonable hours of service."

—WILLIAM E. LEE,
Chairman, Interstate Commerce Commission.

"AND the regulation of motor vehicles and water lines will not restore to the rails the traffic they have lost. The justification for the regulation of these so-called competing forms of transportation is on other grounds. The stability of motor vehicle and water charges, dependable service, the prevention of discrimination between persons and places, the elimination of unbridled competition, and a determination of fair and reasonable rates. It is important, however, for the country to understand that while the ills of the railroads cannot be wholly cured by legislation, their recovery can be materially hindered and prevented by unwise legislation. I do not refer to emergency legislation; I am taking a long-range view."

—CHAIRMAN LEE.

On Intercorporate Relations

"THE disadvantages of holding companies in the utility field have become increasingly manifest. They include in many cases unreasonable payments by operating companies for engineering, accounting, financial, legal, and management services, together with excessive charges for supplies and materials. Moreover, the borrowing of money by holding companies from operating companies and the pressure for excessive dividends upon companies actually rendering service to the public, are types of abuses which legislatures and commissions should continue to combat to the fullest extent possible. . . . We wish to add, however, that the dangerous and destructive aspects of such companies in general are not present in all holding company groups."

—COMMISSIONER ALBERT J. STEARNS (Maine),
Chairman, Committee on Intercorporate Relations.

"THE public does not find it easy to distinguish between holding companies and utilities. The relations between the two are interwoven. Many of the state commissions from experience with holding companies are familiar with their iniquities. It is quite reasonable, therefore, that the commissions and this association should continue efforts to form an intelligent public opinion with respect to such companies, as distinguished from antiutility prejudice created and fostered by politicians."

—COMMISSIONER STEARNS.

"SOME public utility holding companies are sucking the life blood out of thousands of operating companies and for my part I favor a flat prohibition against any holding company taking profit out of an operating company."

—FRANK R. MCNINCH,
Chairman, Federal Power Commission.

On Regulation of Holding Companies

"One opportunity for aiding and strengthening state regulation through the exercise of Federal authority lies in the assertion of Federal jurisdiction over the service contract through which the holding company has so often profited at the expense of its subsidiary, the operating company, and, therefore, at the expense of the consuming public. If, as its defenders contend, there are inherent economies in the holding company system in furnishing various services to the operating subsidiaries, such economies should be passed on in their entirety to the operating companies for the benefit of the consuming public. Justice to the consuming public demands that every service performed by the holding company for its subsidiary shall be stripped of the element of profit and performed at cost. Already, this principle has been conceded by certain holding companies which have abandoned the practice of charging a profit upon these services to their subsidiaries."

—Frank R. McNinch,
Chairman, Federal Power Commission.

"The alleged abuses in the issuance and sale of securities by holding companies are strongly in the public mind. In our opinion the sale of holding company securities is a 'blue sky' matter and no undue restrictions should be placed upon such sale which are not equally applicable to the sale of other securities. The recent 'Federal Securities Act of 1933' would seem to insure some safeguard against the repetition of former objectionable or improper practices with respect to these securities."

—Commissioner Albert J. Stearns (Maine),
Chairman, Committee on Intercorporate Relations.

"Various methods have been undertaken by the states to attempt jurisdiction over foreign holding companies. They include declarations that foreign corporations shall be deemed to be doing business within a state if they furnish any service or commodities or equipment to an affiliate for intrastate purposes; that a foreign corporation shall be subject to service of process within a state if it controls a utility within that state by stock ownership; that affiliated interests are public utilities; and that a foreign holding company may not acquire stock control of a local company except upon an agreement with the local state commission to submit to jurisdiction in so far as transactions with its affiliate may affect rates for service of the latter. A lack of uniformity in this matter is manifest."

—Commissioner Stearns.

On the Basis for a Reasonable Return

"When the Supreme Court is faced with a clean-cut case involving deduction of straight-line depreciation reserve, the liberal mind of Chief Justice Hughes will be the majority opinion of the Supreme Court of the United States."

—Alvin C. Reis,
Chief Counsel, Wisconsin Public Service Commission.

"In view of the decisions of the Supreme Court . . . it may be appropriate to consider briefly where cost of reproduction rests in the equation of valuation. That the task of making a valuation might be materially simplified and the attendant expense substantially reduced, if estimates of present costs were dispensed with, is obvious. Must reproduction cost nevertheless be determined? We must find the answer to this question in what the courts have said. . . . From these decisions it would appear, therefore, that the court intends that a valuing tribunal shall be free to adopt any method of valuation which seems to it appropriate so long as the results of its order do not overstep the line of confiscation."

—Commissioner Fred P. Woodruff (Iowa),
Chairman, Committee on Valuations.

"The rate of return which courts and commissions during the year have held should be allowed upon fair value has been generally less than that allowed in the postwar era, when rates as high as 7½ and 8 per cent were held necessary to avoid confiscation. The recession in the amount allowed finds its justification for the most part in general economic conditions and in the decline of commodity price levels."

—Commissioner Woodruff.

On the Use of Price Trends in Valuation

"A somewhat hurried survey of decisions of the Supreme Court does not reveal specific approval of the use of indices in bringing to date cost of reproduction new studies.

There are, however, decisions which indicate that their use to show changed cost and the extent of that change was recognized and seemingly was accepted—at least not condemned. But, in other instances, the court has indicated that indices used were not applicable or were not persuasive. Personally, I am of the thought that indices can, under certain conditions, be used to advantage. I feel confident that if properly developed, applied, and presented, indices will stand judicial review."

—Ernest I. Lewis,
Director of Valuation, Interstate Commerce Commission.

"It would seem to me that you probably can, with advantage, step up—or down—by indices the priced inventories of previous valuation and subsequent additions to plant to get current reproduction cost studies. You may even be able to develop a situation—if you have not done so—in which you can step up or down all utilities of a given kind as a group. I know that some states have been using indices and others have been experimenting with them. This is the opportunity to give us the benefit of your experience: and if not experience, your thought.

"There is this one thought that I would reiterate—if you are going to use indices, lay your foundations so well, build them so carefully, and present them so effectively, that they will carry conviction; and make them be applicable."

—Commissioner Lewis.

On Reproduction Cost Valuation

"We turn a deaf ear to speculation, hypothetical set-ups, and opinions. Manufacturers' and dealers' price lists are available, but actual contract prices and construction costs are given dominant consideration. We not only have uniform annual reports of all property changes by units and money which the carriers are required to make, but beyond those reports, there are on file and available the (1) authorizations for expenditures with accompanying estimates, (2) completion reports with record of cost, (3) vouchers issued in payment, and (4) contracts for purchased materials. These are policed and checked by our examiners in the field and the carriers are required to file and keep such records available at all times for recheck. (5) Realizing that probation weight of indices rests on the conviction that they carry as to reliability of presenting a correct picture in building up those correction factors we are more than careful—we are meticulous."

—Ernest I. Lewis,
Director of Valuation, Interstate Commerce Commission.

"We also keep a close look-out through various trade publications for articles reporting either the estimates for construction, the letting of contracts, or description of construction and its cost that is so much the pride of some public utilities, manufacturers, or others that they blazon the facts to the world. We write to the companies and others who are outside our jurisdiction and ask them for copies of the contracts. They send them in."

—Commissioner Lewis.

On Going Value

"Is a functioning public utility worth more than its naked poles and wires, its central office equipment, or its generators? Certainly. Would not a buyer pay more for such a concern than for an undeveloped, untried experiment? Certainly. These shallow questions, however, confuse value with rate base. Value contributed by consumers through paying in rates for the training of personnel or attaching subscribers, is a 'customer donation,' so to speak, and not to be capitalized. Value contributed by way of a franchise, is the gift of the public, for which the public cannot be burdened by being compelled to pay a return on that value. These things are value but they are not rate base."

—Alvin C. Reis.
Chief Counsel, Wisconsin Public Service Commission.

"If you strip a public utility of its good will and its franchise, you disallow its alleged past losses, you blue pencil its charges for training personnel and acquiring subscribers which currently have been debited to operating expense, you discount the possibility that these past losses, these personnel costs, or these expenses of attaching business, though

once incurred, will ever be recurring—you, finally, reproduce the plant . . . by 'the appraisal of the physical assets as parts of an assembled whole'—when you have done all that, and all in accord with the adjudications of the highest court of the land, then I reiterate:

"'Going value? It is not going. It is gone.'"

—ALVIN C. REIS,

On Grade Crossing Elimination

"IT is necessary to say but little on the aspect of unemployment relief. That is generally recognized. It may be well, however, to point out that in comparison with many other forms of unemployment relief the elimination of grade crossings is a measure that has fundamental economic soundness, because a large part of such outlays goes for labor either immediately on the job, previously in the provision of materials, or in supervision. Then, too, the necessity is greater in the congested centers, where the elimination of dangerous grade crossings is most necessary and unemployment is greatest. The use of public moneys for grade crossing elimination results in the accomplishment of a much needed public improvement, which measurably increases public safety."

—COMMISSIONER LEON G. GODLEY
(New York),
Chairman, Committee on Railroad Grade Crossings, Elimination and Protection.

"WHEREAS, the elimination and/or protection of crossings at grade between railroads and public roads is greatly to be desired as a means of providing greater safety for the traveling public on the highways of the nation; and to foster and promote interstate commerce between the several states, and

"WHEREAS, the separation of the grades and/or protection of railroads and public roads at such crossings is usually attended with great cost and is, under existing economic conditions, a financial burden greater than the railroads and/or the several states, municipalities, and political subdivisions may, at this time, properly undertake upon a nationwide scale; and

"WHEREAS, this association is informed that, with the view of relieving unemployment and aiding the national recovery, large appropriations have been made by the Congress,

"NOW, THEREFORE, BE IT RESOLVED, that the National Association of Railroad and Utilities Commissioners urgently commends to the consideration of the President of the United States the desirability of immediate appropriation, out of funds made available by the Congress, of substantial sums to be expended in the several states, for the purpose above set forth, upon such projects as may be recommended and approved by proper Federal and state authorities;

"RESOLVED FURTHER, that the president of this association appoint one member from the association to serve with him and the first vice president as a committee representing the association to transmit a copy of these resolutions to the President of the United States."

Resolution Adopted by the National Association of Railroad and Utilities Commissioners.

World's Largest Lamp

A LABORATORY model of a 100,000-watt incandescent lamp bulb, made by the Westinghouse Lamp Company, if lighted, would operate at perhaps half the temperature of the sun's atmosphere, searing everything that came close to it.

The glass bulb has walls which are ¼ inch thick to resist a crushing strain of 40,000 pounds induced by the necessary vacuum. Its tungsten filaments are as thick as a fountain pen.

And its light would be so bright that it could be picked up by a "telescope observer standing on the moon."

What Others Think

The Competitive Angle of Utility Codes

An interesting address which touched on the gas utility codes was given at the recent annual convention of the American Gas Association by H. O. Caster, of the Cities Service organization, and retiring president of the association. Mr. Caster reviewed some of the practical difficulties which arose when the gas industry as a whole was confronted, during the summer of 1933, with urgent requests from the Federal government to prepare and submit codes covering their operation.

The manufactured gas industry, according to Mr. C ster, is more than 98 per cent engaged in intrastate commerce and all units of the industry are under the control of state regulatory bodies and subject to state laws. Therefore, members of the industry felt that they must not do anything which would in any way interfere with their compliance with state laws or orders of the state regulatory commissions. Nevertheless, a meeting was called and a tentative code was drafted and presented to the National Recovery Administration where it is still being considered and whether it will be ultimately approved, disapproved, or revised is very much up in the air.

With the natural gas industry, however, there was an entirely different situation. Mr. Caster said:

> The business of the natural gas industry is divided into three parts—the production of gas, its transportation, and its sale. At this time its sale only is under the control of regulatory bodies as a utility. The production and transportation of natural gas is not regulated and, therefore, is subject to the general Industrial Recovery Act. It appeared likely that these two divisions of the natural gas industry would be subject to a code. Because of the difference between the business of that industry and the manufactured gas industry, it was thought best that a separate code be prepared and presented by the natural gas industry, and this was done. Its committee presented its code in Washington on January 3rd. The committee has been asked a number of times by the Deputy Administrator to make changes in the code, and most of these requirements have been met, but, like the manufactured gas industry's code, it has not yet been approved.

This delay in adopting a gas code, especially for the natural gas section, while the coal industry (in which labor accounts for close to 70 per cent of the production cost) has already bound itself to the code, has resulted in complications. It appears that natural gas, as a competitive fuel, enjoys some marketing advantage as a result. For example, the *Gas Age-Record* of July 28th editorialized in part as follows:

> Fortunately in recent months due to the increased and increasing prices for oil and coal the competitive position of gas as a fuel in industry has been markedly improved. Now, if ever, would seem to be the time to lay special emphasis upon the sale of gas to industry to take advantage of this bettered competitive position to at least maintain present earnings in the face of increased costs by means of greater volume of business.

Needless to say, this situation has drawn the fire of the coal industry. Mr. Carroll B. Huntress, president of Appalachian Coal, Inc., told the Michigan retail coal merchants at their convention in Flint, Mich., last August:

> The natural gas threat, as a whole, however, is a serious one, something about which you should actively concern yourselves. A statement came out last week from the Federal Trade Commission that eight companies control 85 per cent of the natural gas available for distribution in the United States. Those interests for over a year have been able successfully to defy the NRA, refusing to submit to a code of fair

competition, thereby flouting the interests of half a million coal miners. Those gas people are reaping a harvest by their defiant attitude, with NRA seemingly viewing the situation in an air of indifference.

Mr. Huntress went on to claim that the coal industry had been promised in 1933 by General Johnson, former head of the NRA, that all competitive fuels would be placed on a fair footing by the adoption of reasonably comparative codes. Mr. Huntress added that that promise has not been kept by reason of the delay of the NRA in putting through the natural gas code which was submitted in tentative form August 14, 1933, and has been hanging fire ever since.

But there are other matters to be considered before codes can be imposed pell-mell upon utility industries, or at least that portion of their activity that is at present subject to state commission control. A clear example of this was seen in the letter sent last August by the Connecticut Public Utilities Commission advising the New Haven Water Company that public utilities operating in that state ought not to be subjected to more than one code of fair competition under the NIRA and that "in any event there ought not to be a duplication or overlapping of code provisions."

The situation presented to the Connecticut commission by the New Haven Water Company with a request for opinion and advice arose from the action of the Divisional Code Authority of the construction industry in seeking to impose upon the water company a percentage assessment because of work being done by the company in laying and extending its service mains. The work is being done by the water company's own regular forces and the company sought the commission's advice as to whether rates and service should be burdened by the increased cost and confusion arising out of submission to the claimed jurisdiction of conflicting codes and code authorities. On this particular point the commission stated:

The relaying and extension of the water mains is usually routine work by the company in connection with the proper maintenance of its plant, and it may be questionable if such work should come under code provisions other than wages and hours of work contained in the President's Emergency Reëmployment Agreement.

The commission indicated its approval of the company's coöperation with the NRA, but added the following words of warning:

If compliance with code provisions materially increases operating expenses or impairs the continued rendition of proper service to the detriment of your patrons, and such compliance is discretionary on the part of the company, in such case the commission feels that the company should decline to follow exceptional code provisions.

OBVIOUSLY the objections raised to a water company subjecting itself to a code covering its construction activities because of its main extension work would be equally applicable to a gas utility. Again, the necessity for any utility, gas or otherwise, to keep its expenditures within the allowable control of the state commission is also obvious. A utility company which goes ahead and assumes code expenditures and subjects itself to operating cost restrictions which may later be disallowed in a rate case as an unnecessary increase of operating expenses against the ratepayer might find itself in a difficult financial position.

It is a puzzling dilemma. There is much to be said for the coal men's demands for a fair competitive status. There is much to be said for a state commission's insistence that a utility keep its operating costs strictly under commission control. Who is to reconcile these differences? Will the Federal government care to assume the responsibility of dictating to the state commissions what must be allowed for utility operating expenses to take care of code compliance? Or will the state commissions assume the responsibility of determining the reasonableness of utility expenses with due respect for fair competitive position with rival but unregulated fuels, such as coal and oil

products? Some day that question probably will be presented in such a compelling form that an answer can no longer be delayed.

—F. X. W.

ADDRESS by H. O. Caster. Delivered before Sixteenth Annual Convention and Exhibition of American Gas Association. Atlantic City, N. J. October 29–November 2, 1934.

COAL AND ITS COMPETITIVE FUELS. Address by Carroll B. Huntress before Annual Meeting of Michigan Retail Coal Merchants' Association. Flint, Mich. August 21, 1934.

RELEASE by Connecticut Public Utilities Commission. August 11, 1934.

A Bibliography of Public Ownership

It's here at last—a reference book which contains selections and citations from the best articles, books, and addresses, on all points and on both sides of the government ownership question that have had substantial circulation during recent years. James G. Hodgson is the author—or, as one should perhaps more properly say about a work of this kind—the compiler of a handy little volume that ought to be of great use to libraries, lecturers, college and high school debaters, editors, politicians, and any one else who has to dig up in a hurry any material either favorable to or opposed to public ownership of utilities.

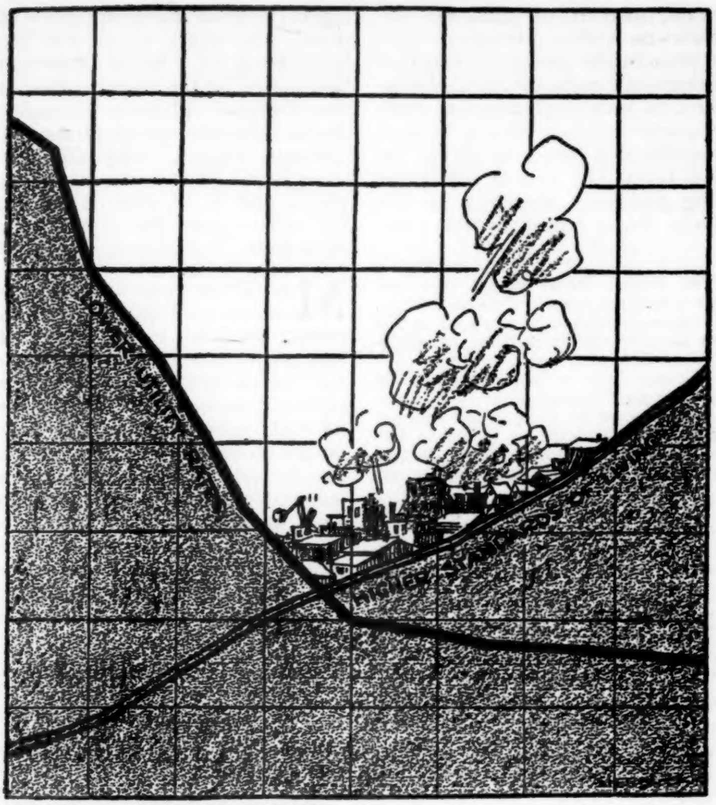
Unquestionably Mr. Hodgson has attempted to make a fair selection of equal excellence on both sides. Generally speaking, he seems to have succeeded. Some of the articles cited are a little out of date in this fast moving period of utility development. Other points might be covered more completely. For example, the *Public Ownership League Leaflet No. 7* on "Tax Free Towns" certainly should be followed by at least some references to the replies to the taxless town claim by both liberal and conservative writers who seem to have exploded the taxless town myth.

HOWEVER, in such a selection, there is bound to be some difference of opinion and Mr. Hodgson has on the whole used his own best judgment. One fact that might interest readers of PUBLIC UTILITIES FORTNIGHTLY is the even division of the references which Mr. Hodgson has cited from this magazine. Out of twenty bibliological citations, ten are favorable and ten are unfavorable to private utility operation. Likewise, of the two articles from the FORTNIGHTLY which Mr. Hodgson has seen fit to report in full, one is listed as opposed and one favorable to public ownership.

The appearance of this book should be a relief to busy editors, lawyers, teachers, and others who are constantly being asked by well meaning high school and college student debaters for "material on the government ownership question." Now we can just tell the fledglings to use Mr. Hodgson's book and, incidentally, we might profitably use it ourselves on occasion.

ANOTHER recent publication very similar to that of Mr. Hodgson's is the University of Texas bulletin on "Government Ownership of Power and Light Utilities," by Dr. Claiborne A. Duval, of the University's Division of Extension. Like Mr. Hodgson, Dr. Duval has selected material on both sides of the public ownership question. It contains somewhat more detailed text material than Mr. Hodgson's book, together with an interesting analytical discussion on the general material by assistant professor of public speaking, Thomas A. Rousse, of the University of Texas.

Dr. Duval has published excerpts as well as full length text from a greater number of articles than appear in Mr. Hodgson's book and on the whole reflects more of a long range historical



The News and Observer, Raleigh, N. C.

"THE TENNESSEE VALLEY"

approach. The conscientious debater on this question would certainly do well to examine both documents.

—F. X. W.

THE REFERENCE SHELF. GOVERNMENT OWNERSHIP OF PUBLIC UTILITIES. Compiled by James Goodwin Hodgson. The H. W. Wilson Co. 1934. 194 pages. 90 cents.

GOVERNMENT OWNERSHIP OF POWER AND LIGHT UTILITIES. By Claiborne A. Duval. *The University of Texas Bulletin, No. 3438.* October 8, 1934. Published by The University of Texas, Austin, Texas.

Should the Government Operate Radio Broadcasting?

ON October 19th, in the bright and sunny hearing room of the Federal Communications Commission, there stepped forth to give testimony on the subject of government licensing of educational radio broadcasting, Dr. Floyd

W. Reeves, director of personnel for the Tennessee Valley Authority. Dr. Reeves brought the genial chairman of the commission's radio division, Hampson Gary, to wide-eyed attention with an unexpected proposal that a Federal radio broadcasting system be set up. In classified form, Dr. Reeves made the following proposals according to the *Associated Press* report of his testimony:

1. The United States should own and operate a national system of radio stations.
2. Frequencies should be allocated to this system so as to disturb existing broadcast facilities as little as possible.
3. The mechanics of operation should be financed by the United States.
4. A committee of nonpartisan cultural and educational associations should be designated by the President to have absolute authority over programs placed on this system.
5. That the facilities of the system be available to nonprofit educational and cultural groups, including government departments.

Dr. Reeves added that as far as these five recommendations were concerned, he spoke for the TVA. But Dr. Arthur E. Morgan, ever-vigilant chairman of the TVA, evidently thought otherwise. In a telegram to the Communications Commission on October 23rd, Dr. Morgan asked that a 60-word statement be incorporated in the record in place of the 3,000 words of testimony by Dr. Reeves. The substituted statement follows:

> The Tennessee Valley Authority has not urged or favored governmental administration of radio stations. It is the opinion of the board of directors that the educational and cultural agencies of the country should have a reasonable use of the radio facilities of the country but that all such programs should be under nongovernmental and nonpartisan control and direction.

A mere comparison of the two versions of TVA's intentions indicates that Dr. Morgan was certainly using the word "misinterpreted" in the broadest sense of the term when he spoke of the reaction to Dr. Reeves' testimony. It appears more likely that Dr. Reeves was the party who did the misinterpreting or in plain parlance "spoke out of turn." In either event, the incident lends fresh color to an interesting debate staged at the recent convention of the National Advisory Committee on Radio Education at the Drake Hotel in Chicago, Illinios. Opposing speakers were Bruce Bliven, editor of *New Republic,* and E. H. Harris, chairman of the radio committee of the American Newspaper Publication Association.

Mr. Bliven is in favor of government administration of broadcasting facilities. He arrives at this conclusion, not because of any desire for slavish imitation of foreign broadcasting practice, but principally because he feels private operation of the industry to date has been a dismal failure (as far as the content of the broadcast material is concerned), and because he feels we can do much better than foreign broadcasters even, including the British Broadcasting Company, which Mr. Bliven particularly admires in comparison with the American facilities. Said Mr. Bliven:

> I remember the days, fifteen years ago, when radio broadcasting was just making its appearance. As a matter of historical record, I recall that I wrote the first magazine article ever published about broadcasting and its potentialities. At that time, we were all tremendously excited about the marvelous possibilities of this new force, which we believed would have the utmost usefulness, as a musical instrument, as a means of education and information, as a device for political debate. So far as America is concerned, these promises have not been fulfilled. I do not want to blame individuals, but we have permitted a system to grow up under which radio is almost useless today. What it does in the realm of serious music is a disgrace. What it does in the field of education is pitiful. What it does in the field of news is, broadly speaking, nothing, our friends, the newspaper publishers, having effectively stopped all this work.
>
> To be sure, an opponent of my views can bring forward a few good programs, most of them lasting the conventional fifteen minutes. The answer to that is that it is not the slightest use to have a good minority of programs when the majority consist of unendurable drivel. It is like saying of a beautiful woman that she appeared in a white dress only part of which was dirty.

Radio as at present constituted has driven away all persistent listeners except the morons—if you don't believe this, ask your friends. The rest of the population will never come back until they are assured that turning on the idle set will not be the equivalent of letting off a stench bomb in the family living-room.

STRONG language this, but there is much to be said for Mr. Bliven's complaints aside from his weakness for somewhat unfair hyperbole. Few among us have not at times grown impatient with protracted interruptions of radio entertainment in the form of sales ballyhoo, or some pseudo-scientific warning on the horrible dangers of "faulty elimination." One naturally expects that commercial sponsors who pay for broadcasting time should be entitled to blow their own horn a bit in the course of the program, but there is no doubt that these commercial talks could often be handled with more tact and better taste.

Mr. Bliven agrees that censorship of the radio, which is an ever-present danger when the government has complete control, is an accomplished fact in many European countries. He professes to regret this very bitterly but he wonders if such a risk is any more deplorable than the present state of degeneration in which he finds the broadcasting industry in the United States. He says on this subject:

When people tell you that the radio abroad is censored, they assume that in the United States it is free. Nothing could be further from the truth. I do not believe that there is government censorship of radio in this country, despite the efforts of Mr. Ogden Reid of the *New York Herald-Tribune* to prove that there is. The broadcasters themselves, however, exercise an extremely powerful and efficient censorship. Most of them come from the ranks of public utility employees, especially the electrical industry. They incessantly censor their programs to favor this point of view and conservatism in general. I have in my files dozens of cases where speakers have been cut off the air, against the public interest, through censorship activities by private broadcasters.

Far more important, however, than censorship by broadcasters is lack of brains among broadcasters. It is obvious, when you stop and think about it, that the man in charge of a radio program ought to have the background, training, and character of the president of a great university. They have such men in other countries. In America, on the other hand, everyone knows that the typical program director is a cross between a vaudeville producer and the advertising manager of a popular magazine. I don't wish to hurt anyone's feelings, but it is evident, I think, that such people are not fit to conduct the educational activities of eighty million Americans. It becomes more evident if you study in detail, as I have done, the extremely skilful, painstaking, and yet brilliant work being done in this field abroad.

MR. Bliven ended his side of the debate on a constructive note. He wonders whether the terrors of governmental domination might not be avoided and a wholesome competition for true entertainment values accomplished if we had a dual system of broadcasting control: both public and privately operated chains. He said:

I am profoundly convinced that the evils connected with government-owned radio are insignificant compared with the evils which today are killing radio broadcasting in this country. However, I am willing to adopt a reasonable and moderate compromise suggestion. Let us have one nationally owned and operated network, with a station of ample power in each part of the country. Let the government summon such a man as President Hutchins of the University of Chicago or President Conant of Harvard to be its head—and if these gentlemen are as wise as I think them, they will see that such a position is far more important than those they now hold. Then let the listeners of America choose between government programs and private ones. I should be happy to abide by the results of such an experiment.

What Mr. Bliven proposes is really a Federal "yardstick" in the field of radio broadcasting and the subsequent statement of Dr. Reeves before the Federal Communications Commission plainly indicates that such a proposal has at least been discussed in that land of the great all-American yardstick—the Tennessee valley. (Wonder how a TVA "culture talk" would stack up against the World Series in the hill-billy country?)

MR. Harris in his reply to Mr. Bliven went into considerable de-

tail concerning this historical background of radio broadcasting in this country. He took up in order the Radio Law of 1927, the 1934 Communications Act, the prevailing ownership of physical equipment in the broadcasting industry, the existing government control over equipment, the "network" and its part in program making. When he comes to comparing American and European programs, Mr. Harris strikes a real issue. He said:

> A fundamental difference between the American system of broadcasting and the European system is that in this country the broadcasters in their own interest must try to give the listeners what they want; in European countries the broadcasters produce what the government believes the listeners should have. In fact this was once frankly stated by Sir John Reith, head of The British Broadcasting Corporation, who referred to "The dangerous and fallacious policy of giving the public what it wants in preference to what it should have."
>
> Undoubtedly radio broadcasting in the United States is subject to such severe criticism and in many respects it is far from our liking. But we must admit that unless the broadcasters furnish programs which the listeners want to hear, the listeners will switch off their receiving sets, or turn to another station on which the program is of greater interest. Broadcasters must constantly strive to improve the quality of their programs in order to gain and hold the attention of listeners. If they do not do so, the listeners will lodge protests, and private interests know that they must hearken to those protests if they are to survive.
>
> Under governmental control of radio, as it is practiced in England and on the European continent, there is a striking record of indifference to the wishes and interests expressed by the listeners, except as those interests are seen through the political glasses of the government.

HE went on to relate a number of interesting specific instances of government domination of radio broadcasting in Europe. Two British announcers were criticized and one dismissed because they made remarks over the air which were derogatory to Poland and favorable to Germany, respectively. Former Secretary of State Stimson had to submit his paper in advance before he could be heard over the British system while representatives of four foreign governments were speaking freely over American stations without anyone knowing in advance what they would say. All this is necessary, according to Mr. Harris, when a government assumes responsibility for radio broadcasting. It would be the same in America and a great pity too. Going into other foreign fields, Mr. Harris reported the answers to a questionnaire sent out by the Union Internationale de Radio. It appears that in Austria, Czechoslavakia, Norway, and Rumania, broadcasts concerning political subjects are absolutely forbidden. In France and Ireland they are carefully supervised, while in Russia, Germany, and Italy, the broadcasting station is degraded to a servile propaganda medium at the beck and call of the government.

Mr. Harris believes that the retention of independent competition between private broadcasting facilities in the United States (there are over 500 independent stations) is the greatest safeguard in preserving democracy.

ONCE given complete domination over radio broadcasting, foreign experience shows us, according to Mr. Harris, that the prevailing government is inclined to hog the air. He quoted a statement made in New York city by Mr. S. K. Ratcliffe, correspondent of the *London Spectator:*

> Political speech making on the radio is limited by the BBC, which comes under governmental supervision. The Prime Minister may speak on the air at any time he wishes, and the members of the Cabinet are never refused a hearing, but political campaigning is restricted, not only regarding the number of speakers representing one party, but as to the time allotted the speakers. The ether is always open, however, for talks on social ethics, religious talks, and similar subjects.
>
> Censorship of speech, practically unknown here (in the United States) is much more strict in Great Britain, where the blue pencil is very much in use. However, the British Broadcasting Corporation would not think of editing a speech by the Prime Minister.

On the question of broadcasting merit, Mr. Harris claims that, contrary

to popular notion here, more serious music is broadcast in America than in England; three times as much opera, twice as much operetta, and 50 per cent more serious orchestral music, whereas BBC broadcasts more jazzy dance music programs than the American stations. One wonders if Mr. Bliven was familiar with these claims, or if he believes them.

Mr. Harris reminds us that commercial advertising is a necessary part of American broadcasting because the advertisers foot the entire bill of our broadcasting industry. There is here neither tax on receiving sets nor government subsidy for the broadcasters. He believes this system is least burdensome to the average American, since by adopting "Government control we will transfer the operating costs from the advertiser to the taxpayer or set owner or both." Mr. Harris agrees that American broadcasting programs could be improved and he feels that the American private broadcasters are doing their best to improve them with this important difference, as compared with the governmentally operated system in Europe:

> It must be said in favor of the broadcasters that they are experimenting to the nth degree to give the public what they want. Because they are not producing what we believe the public should hear we should not take steps which may destroy a democratic system and substitute a dictatorial system. We do not deny the right of the cultural agencies to lead the way but we cannot expect a product for the masses to be satisfactory to the 10 per cent. If a program is made for the 10 per cent it would not survive and the contact with the 90 per cent would be lost.

This reviewer heard practically the same argument in stronger language from the lips of an official of a network system whose name, for a very obvious reason, is omitted here. This gentleman admitted that the advertising ballyhoo and monotonous thump thump of the dance orchestras that seem to monopolize most of the evening hours when he (and the rest of us) are free to listen, had so bored him that he rarely turns on his radio except for an occasional favorite concert program or an event of national interest. He added:

> What can the broadcasters do about it? Don't you think that broadcasting officials and announcers get just as sick of one jazzy program after another as you do? But that's what the public wants and if you don't believe it come up to our offices and I'll prove it to you beyond all doubt. Who are we—the broadcasters—to ram our or anyone else's idea of culture down the throats of people who don't like it, can't take it, and won't stand for it? If the government ran the show they would have to take it and like it. As long as private operators are running it on a bread and butter basis we've just got to follow out the lines indicated by our auditor-interest surveys.

The broadcasting official was, perhaps, in error when he said that American people would have to "take it and like it" from a government broadcasting monopoly. The United States being a true republic, we shall have just the kind of broadcasting the people say we shall have.

And so in the final analysis, as far as America is concerned, whether our broadcasters should pander to the trivialities of the masses or attempt to administer culture to them will always depend on whether our citizens want to learn or merely be entertained. This is true whether the industry is publicly or privately administered. And so if the majority of our citizens should decree that "Jumpin' Joe Jinks and his Bothersome Boilermakers" shall play the latest epileptic rhythm from a Harlem hot-spot from now until doomsday, the rest of us may as well go to bed or read the *New Republic* or engage in other such cultural pursuits. Public or private control of the microphone would not make the slightest bit of difference.

—F. X. W.

Shall the Government Own, Operate, and Control Radio Broadcasting in the United States? Debate by Bruce Bliven and E. H. Harris before the fourth general session of the Fourth Annual Assembly of the National Advisory Council on Radio in Education, October 9, 1934, Drake Hotel, Chicago, Ill.

The March of Events

State Commissioners Meet

FIRST DAY: Gathering for their 46th annual convention during crisp, sunny, Washington fall weather, the National Association of Railroad and Utilities Commissioners assembled at the Willard Hotel in the nation's capital on November 12th. The convention was called to order by the president of the association, Andrew R. McDonald, of the Wisconsin commission. After an address of welcome by the Hon. Melvin C. Hazen, president of the board of commissioners of the District of Columbia, the convention heard another welcoming address by Chairman William E. Lee of the Interstate Commerce Commission. Chairman Riley E. Elgen of the District of Columbia Public Utilities Commission, also assisted in welcoming the convention.

In the course of his remarks, Chairman Lee said the increased development of highway motor carriers had made it more apparent that some steps should be taken in transportation regulation, particularly with a view to obtaining a greater degree of safety in highway travel where, he said, there is "appalling loss of life and injury." He reminded the commissioners, however, that the regulation of competing forms of transportation is no panacea for railroad ills. He expressed the belief that "the rates of one transportation agency should have a direct relation to the rates of another."

John E. Benton, the national solicitor for the association, discussed new Federal legislation affecting utilities and said the Communications Act had restored to the states their control of intrastate telephone rates. Frank P. Morgan, of the Alabama Public Service Commission, a vice president of the association, presented the report of the executive committee.

The principal speaker of the afternoon session of the first day was Chairman Frank R. McNinch, of the Federal Power Commission, who stressed the interest of the consumers in utility regulation, pointing out that in the use of electricity consumers have a total investment of $13,200,000,000 in equipment, while the total investment of the utilities producing the electricity was $12,900,000,000, or $300,000,000 less. Justice to the consuming public, according to Chairman McNinch, demands that every service performed by the holding company for a subsidiary shall be stripped of the element of profit and performed at cost. He said that this practice had already been adopted by certain holding companies which have surrendered profits on services to subsidiaries. Explaining that the matter of holding company control is now under study by the Federal Power Commission, the commissioner believes that holding companies are "sucking the life blood out of thousands of operating companies," and that for his part he favored a "flat prohibition against any holding company taking profits out of an operating company."

A somewhat similar principle was proposed in the report of the association's committee on intercorporate relations, which said that notwithstanding the fact that each state is in a position to treat the holding company situation so as to prevent interference with regulation, it is desirable that the Federal government aid by requiring certain holding companies to produce facts which the state regulatory bodies may not be able to obtain.

The committee's report, however, was at variance with Chairman McNinch's views inasmuch as it had a good word to say for some holding companies, declaring that "the dangerous and destructive aspects of such companies in general are not present in all holding company groups."

Kit F. Clardy, former Michigan commissioner, presented the report of the association's committee on legislation and predicted a new attack both from Republicans and Democrats in Congress on the jurisdiction of the state commissions. He added, "when state commission regulators pass from the picture, all we have left is government ownership."

In the absence of a scheduled discussion leader for this session—Leon O. Whitsell, of the California commission, Commissioner Clyde L. Seavey, of the Federal Power Commission, and formerly a member of the California commission, presented a paper on the effect of the Johnson Act preventing utilities from appealing from state commission decisions in lower Federal court.

Chairman Leon G. Godley, of New York, reporting for the committee of railroad grade crossings, presented at this session a resolution asking that present laws be amended so that the Public Works Administration out of Federal funds may make grants to state utilities bodies for the elimination of grade crossings.

SECOND DAY: In the morning session the convention was addressed by Joseph B. Eastman, Federal Coördinator of Transportation, who spoke on the reduction of transportation costs by coördinating rail, highway, water, and air carriers. Coördinator Eastman said that surveys have revealed "innu-

merable" ways in which economies could be effected through reducing duplication. Country-wide transportation systems should succeed existing separate groupings, he declared, but did not name possible organization plans. Asserting that he would again propose Federal regulation of all transportation units to the next Congress, Mr. Eastman said railroad rate structures must be revised because of competition developed since the date such schedules were approved. He believed that railroads would recover principally from long-haul traffic because of the labor and other costs handicapping motor truck competition in this field. Mr. Eastman visualized in the near future greater improvements in comfort and speed in rail passenger service, lighter freight cars with uniform sectional bodies interchangeable with trucks, and the use of both in one system.

The morning discussion of the second day included the operation and effect of the Kansas Port of Entry Law for regulating motor carriers.

During the afternoon session, the association elected officers for the coming year, as follows: Andrew R. McDonald, of the Wisconsin commission, acting president by reason of the recent death of former President Richard T. Higgins of the Connecticut commission, was elected to a full term as president; Frank P. Morgan, of the Alabama commission, was named first vice president; Thomas E. McKay, of Utah, second vice president, and John E. Benton was elected to continue the duties of general solicitor. Clyde F. Bailey, of Washington, D. C., was elevated from assistant secretary of the association to secretary, succeeding James Blaine Walker, New York transit consultant, who is retiring after eighteen years in the post of secretary. James L. Martin, also of Washington, D. C., and secretary to the District of Columbia Public Utilities Commission, was named assistant secretary of the association. The executive committee voted that the 1935 convention be held in Nashville, Tennessee, starting October 15th.

THIRD DAY: The morning session was devoted to a discussion of valuation of utilities for rate making, including a determination of reproduction cost, use of price indices and price trends, supervision of accounting and original cost, going concern value, and depreciation. Ernest I. Lewis, director of valuation for the Interstate Commerce Commission, led the discussion with a paper which urged state commissioners to use care in preparation of valuation data based on price trends.

An assistant leader of the discussion was Major Alvin C. Reis, chief counsel of the Wisconsin commission, who presented an interesting paper purporting to show by judicial decisions that the fallacy of requiring a separate allowance for going concern value is now generally admitted. Among other speakers on the subject of valuation which continued through the afternoon session were E. K. Murray, director of the department of public works, state of Washington; George H. English, of the Missouri Public Service Commission; Knud Wefald, a member of the Minnesota commission; William A. Roberts, people's counsel of the District of Columbia; John L. Collins, counsel of the Connecticut commission; Homer Baldridge, attorney for the Oklahoma commission, and William A. Dittmer, consultant of the Illinois commission. Many of the speakers seemed opposed to the reproduction cost theory as expensive and unreliable and expressed the opinion that recent decisions of the United States Supreme Court had liberalized valuation requirements in this respect. Commissioner Murray, of Washington, even suggested an amendment to the Constitution of the United States limiting the valuation of public utility properties to the amount of money prudently invested in them and outlawing reproduction cost.

During this session the association adopted a resolution asking Congress to authorize Federal funds for grade crossing elimination and another resolution against further encroachment of the Federal government into state regulation of utilities and railroads.

On the evening of the third day a banquet was given for the members of the association, at which the Hon. Sam Rayburn, chairman of the Interstate Commerce Committee of the House of Representatives, made an address discussing various phases of legislation affecting state and Federal regulation of public utilities.

FOURTH DAY: During the morning session, Eugene O. Sykes, chairman of the Federal Communications Commission, reviewed the history of Federal legislation affecting communication companies from the early acts embracing ship-to-shore radio telegraphy to the present time. Paul A. Walker, chairman of the telephone division of the Federal Communications Commission, led a discussion on the Federal Communications act in which he urged that the state commissions and the Federal commissions strive to inaugurate ways and means for harmonious coöperation under the spirit of Federal legislation. It was during this session that the news was released that the Federal Communications Commission had decided to investigate the American Telephone and Telegraph Company and its subsidiaries on a nation-wide basis. The communications discussion continued through the afternoon session after which the convention adjourned.

Ickes Announces PWA Plans

CITING rural electrification and grade crossing elimination, on a momentous scale,

as types of work "for quick effect upon employment this winter," and which can be completed in three to four months after authorization, PWA Administrator Harold L. Ickes recently disclosed administration plans for a more vigorous attack on unemployment through Federal spending on public works projects, probably necessitating congressional appropriations of several billions of dollars.

Mr. Ickes went into great detail, in an article in *Today's* issue of November 17th, to reply to those opposing further Federal spending on the ground the budget should be balanced and to argue that the public works' program is not only of direct benefit to private enterprise but is virtually the only means now at hand of stimulating the still stagnant capital goods industry.

Alternatives to further public works spending, he said, were a continuation of relief or a requirement that the employed share their work with the jobless. The standard of living in this country is not sufficient to maintain either course, which he termed "economically and morally untenable."

Urges Reorganization of ICC

Reorganization of the Interstate Commerce Commission and a 4-point basis of fundamental transportation principles were advocated recently by Joseph B. Eastman, Federal Coördinator of Transportation, in a speech to the National Industrial Traffic League, the largest shipper's organization in the country, according to the *Associated Press.*

His four points were:

1. The country ought to have the best and cheapest means of transportation.
2. The country ought to be protected against unnecessary duplication or waste in transportation whether by older or newer agencies.
3. The country ought to have, at all times safe, convenient, and efficient service by reliable and responsible operators.
4. The rates charged for transportation ought to be known dependable and reasonable and relatively fair to all shippers, places, and localities, whether they be big or little.

FTC Reports on Utilities

A "propaganda" campaign, paid for by the public and of greater magnitude than any other ever undertaken "except possibly by governments in war time," was laid to utilities companies by the Federal Trade Commission in the first instalment of a final report on its 6-year study of utilities. Recommendations will be made later, according to the *Washington Post,* probably suggesting utilities be required to identify clearly propaganda material.

The report to Congress questioned the right of a publicly granted monopoly such as a public utility to use money collected from the public "to perpetuate itself through the control of public opinion," and warned that these activities may not be abandoned.

The commission found that every publicity method except "sky writing" was used in attempts to influence the public.

"The total results which have been secured from all the various activities cannot be measured," the commission said.

Dern Favors Waterways

Cheaper inland waterway transportation as a first step in industralizing the Mississippi valley was advocated by Secretary of War George H. Dern upon completing a 2,000-mile trip down the Mississippi from Minneapolis to New Orleans. After concluding the most exhaustive inspection tour ever attempted by a Secretary of War, Dern, according to *The Arkansas Gazette,* said:

"What the interior of said vast rich country needs is more industries. Cheap transportation facilities must be provided. Always where adequate water transportation was provided, big manufacturing plants and general business development followed.

"This was true of the building of the Erie canal—industrial development boomed as a result in that section.

"There is no reason," the secretary continued, "why the industries in the Nation should be jammed up on the coasts. They should be pulled into the interior."

Sets Probe of Phone Rates

Preparations for a nation-wide survey of telephone rates are being made by the telephone division of the Federal Communications, Paul A. Walker, chairman, announced recently, according to the *Washington* (D. C.) *Herald.*

The study is expected to be the most ambitious and far-reaching ever attempted by a government agency and will occupy a corps of experts for at least eighteen months.

The first important stumbling block has been encountered in a challenge hurled at the commission by telephone companies that have refused to comply with an order to supply rate information. Their refusal is based on grounds that the commission has no authority over telephone carriers which do not cross state borders.

What steps will be taken to meet this development, Walker said, have not been determined.

Opens Drive against TVA

APPALACHIAN COALS, INC., marketing agency for nearly 80 per cent of the Southern bituminous mine field, recently opened a national campaign against continuation of the Federal government's hydroelectric power program, according to the *Associated Press*.

TVA was characterized as "the vision asinine."

Opening of the campaign followed a statement by C. B. Huntress, president, taking issue with a recent speech by David Lilienthal, TVA power director.

Replying to Lilienthal's statement that the coal industry has lost much of its market in the electrical utility field in Southeastern States "long before the TVA entered the picture," Huntress declared "the coal industry will continue its opposition . . . because competent engineers have proved that hydro power is more expensive than electric power generated from coal."

"When TVA finds itself with a huge investment in power facilities and an enormous supply of electric power," said a statement issued in connection with the new campaign, "it must for its own salvation develop and organize a power market not now existent. That means the promotion of government-subsidized industries in direct competition with existing private industries. This promotion has already started."

New Rail Pension Bill

U. S. SENATOR William H. King will introduce a bill at the next session of Congress "that will fully protect railroad employees and give them the benefits of the pension or annuity system," if the present railroad pension bill is found unconstitutional, according to *The Deseret News*.

If the present bill is found invalid because it includes persons not engaged in interstate commerce, this objection could be overcome in another bill limiting the pensions or relief to those employed on railroads interstate in character, according to Senator King.

FPC Submits Legal Reports

THE Federal Power Commission recently transmitted to the Senate and is having printed as Part 69-A of Senate Document 92 (70th Congress, 1st Session) two important compilations made by its legal staff in connection with its utilities investigation being conducted under Senate Resolution 83 (70th Congress, 1st Session).

The first (Exhibit 6083) is a quite complete compilation of proposals and views favoring both Federal incorporation and Federal licensing of corporations as well as views opposed to each.

The second compilation (Exhibit 6084) consists of a study of the laws of the states, territories, and possessions of the United States concerning corporations, with particular reference to public utilities and their holding companies. It covers constitutional and statutory provisions made by the various jurisdictions and some of the more pertinent cases decided by the courts interpreting them.

Power Distribution Cost Report Reviewed by White House

A SUMMARY of a bulky report made after a 3-year survey in connection with the projected power development of the St. Lawrence by the New York State Power Authority was issued by the White House recently, according to the *Associated Press*. The survey was made at the order of President Roosevelt when he was governor of the Empire state.

The White House summary said the report, made under the chairmanship of Frank P. Walsh, established a yardstick whereby consumers in New York, Pennsylvania, New Jersey, and New England would be saved $194,000,000 a year or 27 per cent.

As for New York state proper, the summary said:

"The cost of distributing electricity to homes and farms warrants a rate schedule which would charge not more than 3½ cents a kilowatt hour for a use of 50 kilowatt hours a month instead of the average of 6 cents which these customers are now paying."

The report estimated that by applying the yardstick, New York state's total electricity bill, for consumers large and small, would be cut approximately $63,000,000 a year or 22 per cent.

Washington was pictured in the report as one of the cities served by private corporations at reasonable rates which do not jeopardize capital structures.

The report showed the Washington rate is 3.9 cents a kilowatt hour for the first 50 kilowatts, or 4 mills higher than the anticipated low rate which would accrue from the St. Lawrence project.

Of the 28 other cities in 6 states which were used for arriving at the conclusions, the report cited the following rates: St. Louis, 4.75 for the first 32 kilowatts; Portland, Or., 5.05 for the first 30 kilowatts; Buffalo, 5 cents for the first 60 kilowatts, and Montreal, .594 for the first 10 kilowatts.

These rates, the report explained, are much lower than the average prevailing in the United States, and show that the cost of private operation does not preclude reductions approaching those suggested in the distribution cost survey.

Alabama

Writ against TVA Denied

JUDGE W. I. Grubb in Federal court in Birmingham recently denied an application of fourteen preferred stockholders for a temporary injunction to restrain the Alabama Power Company, the Tennessee Valley Authority, and fourteen municipalities from entering into a contract for the sale or purchase of distribution systems in the towns and cities involved.

In declining a temporary injunction, Judge Grubb did not rule on the merits of the case, and said he would make a final ruling, after a hearing on a permanent injunction, according to the *Associated Press.* The TVA's option to purchase the properties was extended from November 14 to February 12, 1935.

Arkansas

Probe Telephone Rates

AN investigation of rates charged by the Southwestern Bell Telephone Company at El Dorado by the state fact finding tribunal was started recently following a request by the El Dorado city council.

The action marks the tribunal's first investigation of telephone rates, according to *The Arkansas Gazette.*

California

Devlin New Commissioner

FRANK R. DEVLIN, widely known San Francisco attorney, was appointed to the railroad commission to fill the vacancy caused by the resignation of Clyde L. Seavey, who accepted an appointment to the Federal Power Commission, according to the *Electrical World.*

Mr. Devlin has a long career of public service, his record including service on the railroad commission from 1915 to 1921, eight years as district attorney of the city and county of San Francisco, and two years as judge of the superior court of Solano county.

City Power for Sacramento

VOTERS of Sacramento county authorized the issuance of $12,000,000 in bonds to provide Sacramento city and county with a municipal power plant, according to the *Associated Press.*

With a majority of two thirds needed to approve the bond issue, proponents of the project piled up 31,278 votes, against 13,715.

Finish Hetch Hetchy Project

A CITY almost surrounded by water has worked nearly a quarter of a century and spent $100,000,000 for the privilege of getting into its mains the surplus or flood waters from a patch of mountain scenery 156 miles away. On October 27th the project became a reality. Through 87 miles of tunnels, more than 10 feet in diameter, and 69 miles of steel-pipe flumeway, the water will flow into San Francisco from Hetch Hetchy valley in Yosemite National Park—from an elevation of 3,500 feet down to but a few feet above sea level.

The available supply to San Francisco and other nearby cities that may seek a share ultimately will total 400,000,000 gallons daily. The project also will be capable of generating more than a billion kilowatt hours of electrical power annually which, under the enabling law, must be sold to municipalities or to public districts at cost.

The San Francisco utilities commission has announced a new schedule of water rates reducing cost to consumers by 10 per cent, a total saving of more than $800,000 annually.

Colorado

Rejects Municipal Plant

EFFORTS to obtain a municipal light and power plant for Rifle failed at the recent election when citizens voted down two proposals, one to erect a light plant and the second for a bond issue, according to *The Denver Post.*

Florida

Seek 30 Per Cent Rate Cut

A substantial reduction in electric current rate at Miami Beach, probably approximating 30 per cent, will be sought, it was voted recently by the city council in an unanimous resolution which included the alternative the city may build its own power plant if the reduction is not granted.

Action of the council, according to the *Miami Daily News,* followed a comprehensive report covering months of research work by C. L. Renshaw, city manager, in which he weighed the possibility of the community's building its own plant.

Renshaw, in his report, estimated a power plant could be erected at a cost of approximately $900,000 to serve Beach consumers not now under contract to the Florida Power & Light Company. He also estimated that a plant to serve the entire community could be erected at a cost of approximately $1,450,000. This, he said, would permit a kilowatt-hour rate of approximately 3.70 cents, or some 30 per cent less than the company's average rate of 5.25 cents a kilowatt hour.

Electric Rates Cut

The Tampa Electric Company has announced a reduction in the rates for domestic electricity estimated to save consumers $80,000 a year, effective with bills after December 1st.

The new rates, according to the *Associated Press,* place all homes under the same rate whether they use large appliances or not.

Georgia

River Project Proposed

Plans to work toward improving and developing the Chattahoochee-Apalachicola river system were considered in Columbus recently by an organization formed for that purpose by representatives from Georgia, Alabama, and Florida cities.

The organization was named "the Chattahoochee and Gulf Association."

Illinois

Protest Power Plant Loan

The Southern Illinois Reciprocal Trade Association in a recent letter to President Roosevelt protested against a $260,000 PWA loan for the construction of an oil-powered municipal electric plant at Carbondale, according to the *St. Louis Globe-Democrat.*

The letter pointed out that production in Southern Illinois coal fields has dropped 52 per cent in the last decade, resulting in a loss of employment to 43,000 men. Carbondale is located in the southern edge of a large high-grade coal field.

Iowa

Water Bonds Defeated

Creston still was faced with the problem of obtaining an adequate water supply when voters in the recent election defeated a proposal to issue bonds to purchase the taxpayer's municipal waterworks and improve the system, according to the *Des Moines Tribune.*

The vote was 1,554 for to 1,596 against the proposal to purchase the waterworks for $185,000, issue $40,000 in bonds for improvements and to place the system under a board of trustees.

Kentucky

PSC Considers Regulations

Regulations designed to protect both the consumers and utility companies supplying them with service have been sent out by the public service commission to all incorporated towns and to all electricity, water, and gas companies in the state, according

to a statement published in *The Courier Journal.*

The regulations, tentatively adopted, were scheduled for consideration by the commission at three public hearings during November. The regulations apply both to privately and publicly owned utilities.

Among the regulations is a provision that every utility company must provide "a suitable desk or table in its outside office, near the cashier's window, on which shall be available to the public" a copy of the rates and rules of the utility, a copy of the state public service commission law, and a copy of the commission's rules and regulations.

The regulations require utility companies to make annual financial and statistical reports, monthly or quarterly reports on meter tests, the number of customers served and refunds, and "such other reports" as the commission may require from time to time.

Seek Phone Rate Reduction

THE public service commission on its own motion has ordered all telephone companies operating in Kentucky to show cause why rates for hand-set and desk-set telephone equipment should not be reduced.

If the tentative order made by Chairman Wilbur K. Miller and Commissioners Lloyd B. Clark and William D. Cochran becomes final, telephone companies will be forbidden to impose an extra charge for desk-set equipment and will be required to modify charges for "cradle" or hand-set phones.

Michigan

Municipal Plant Vetoed

VOTERS in Morenci recently rejected a proposal to borrow $146,000 to construct a municipal electric plant, the debt to have been secured by a mortgage on the plant, according to the *Associated Press.*

A similar plan to provide for a city-owned waterworks, for which $20,000 would have been borrowed, was defeated.

Minnesota

Public Ownership Approved

THE Farmer-Labor party, Governor Floyd B. Olson said after the recent election, has a mandate from the people of Minnesota to put into effect its far-flung public ownership program, designated to achieve a coöperative commonwealth.

"Of course," Governor Olson explained, according to the *Associated Press,* "some points under the industrial program, calling for public ownership, must first be approved by a referendum of the people voting upon a constitutional amendment. Such referendums must, of necessity, be first approved by the legislature."

The industrial program promises submittal of an amendment to the Constitution to permit establishment of the Ontario public-owned system of power development in the state and demands public ownership of factories, packing plants, banks, transportation, communication, mines, and water power.

Other phases of the platform, the governor added, would be sought through legislative resolutions memorializing Congress for their enactment. Among these probably would be government control and operation of munition plants, no tax-exempt securities, immediate payment of the soldiers' bonus, and ratification of the Great Lakes-St. Lawrence waterway treaty with Canada.

Defeat Utility Franchises

THE proposed electric, gas, and steam franchises for the Northern States Power Company were defeated by St. Paul voters at the recent election by a margin of nearly 6,000 votes, according to the *St. Paul Pioneer Press.*

The vote on the electric franchise was 45,605 against and 39,506 for. On the gas franchise, the vote was 44,920 against and 39,888 for, while on the steam franchise, the vote was 42,641 against it and 37,401 for it, it is reported.

Stirred by prospective heavy loss of revenues through defeat of proposed franchises, the city council approved Mayor Gehan's proposal for organization of a city commission of 100 to learn the desire of St. Paul citizens on the utility situation. The mayor expressed the belief that the franchises were defeated because of a general misunderstanding of the situation.

Nebraska

Approves Power District

THE Southeastern Nebraska power district crossed its final hurdle when the PWA recently approved the allocation of $575,000 for construction of the big electric distribution system.

It remained uncertain when actual work will start on construction of the electric lines throughout a considerable part of Gage county and some areas in adjoining counties. Project officials, however, believed the work will be under way by early winter, thereby furnishing employment to several hundred men.

The district was organized about two years ago after about 2,000 farmers had signed petitions for it. Thereafter, several hundred signed contracts to purchase electric current. Since then the project has been before the PWA at Washington. The district will not create its own current but will buy electricity from some corporation and then retail it at reasonable rates.

Ohio

Votes for Electric Plant

WAPAKONETA voters at the recent election gave an overwhelming vote in favor of the construction of an electric generating plant for municipal light and power system, which has been buying power from the Central Light and Power Company. The proposal was approved nearly 2 to 1, according to the *New York Herald Tribune*.

Electors of Massillon defeated the proposal of a $1,785,000 bond issue for the purchase of the municipal waterworks.

Municipal Rate Lowered

A NEW rate schedule for the Columbus municipal light plant, which Mayor Worley declared was approximately 18 per cent lower than the Rail-Light Company's new compromise rate schedule approved by the voters at the recent election, was submitted to the city council, according to the *Columbus Evening Dispatch*.

It was believed that the new schedule which includes a 4-cent top rate for the first 30 kilowatts would be approved.

By reducing the rates of the light plant to a lower level than the Rail-Light Company's schedule, the mayor is hopeful that the city's chances of having Washington PWA officials approve the $1,000,000 light plant extension will be improved.

Federal officials several weeks ago asked the city to withdraw its request for the extension because the prevailing rates of the plants were higher than the new schedule of the utility.

Utility Refunds Delayed

THERE will be no refund to Ohio Bell Telephone subscribers under the recent $12,000,000 public utilities commission order until after the case has been adjudicated in the Ohio Supreme Court.

The state tribunal, according to the *Columbus Evening Dispatch*, has granted the utility a stay of execution from the commission's order until the appeal is heard and settled. The temporary stay was granted after it was pointed out that there would be no way for the utility to recover the money refunded if it should win in the supreme court.

Hearing of the case will be held by the supreme court early in January.

Oklahoma

Utility Bond Issue Defeated

THE proposed $1,260,000 bond issue to build a municipal electric plant at Muskogee and purchase the distribution system of the Oklahoma Gas & Electric Company was defeated at the recent election, it is reported.

Unofficial, but complete, tabulations gave the vote as 1,024 for the bond issue and 3,117 against. Muskogee is the largest city in the state which has voted on a municipal light plant.

Oregon

Postpone Phone Rate Cut

The Pacific Telephone & Telegraph Company won at least a temporary respite from lower telephone rates fixed by Public Utilities Commissioner Thomas from going into effect when Circuit Judges Tucker and Lusk granted a temporary injunction restraining Commissioner Thomas from enforcing his rate-reducing order pending the holding of a hearing to determine whether or not the injunction shall be made permanent.

It was indicated by the two judges who are sitting *en banc* on this case, according to the *Morning Oregonian*, that every effort would be made to speed up the hearing of the action on its merits so that the final disposition would be delayed as little as possible.

Grange Power Bill Defeated

Oregon voters at the recent election rejected the Grange Power Bill, which would have legalized the establishment of a state-owned, tax-exempt power system.

Returns from all but 13 of 1,660 precincts recorded a vote of 120,980 for and 135,690 against the measure, according to the *Morning Oregonian*.

Pennsylvania

Lehighton Electric Rates Cut

The public service commission has approved an agreement between the borough of Lehighton and the Lehighton Electric Light and Power Company whereby material savings will be effected for the ratepayers, according to *The Evening News* (Harrisburg). The old flat rate charges for both residence and commercial services were abolished. A residence rate based on the number of rooms has been established and the commercial charge will be based on the number of contact sockets.

South Carolina

PWA Resists Duke Power Move

PWA officials have asserted that they will resist in every possible way the latest effort of the Duke Power Company to prevent or delay the construction of Greenwood county's hydroelectric plant, according to *The News and Observer*.

The PWA allocated $2,767,000 for the project several months ago and this week allocated an additional $80,000 for the construction of more transmission lines made necessary by the inclusion of two more counties, which was the net result of the protest of the Duke Power Company and beneficiaries of the Duke Foundation before the PWA, that protest being directed in part to the fact that one chain of cotton mills would receive a large part of the power.

The Duke Power Company withdrew a protest before the Federal Power Commission and then fought the project unsuccessfully through the South Carolina state courts on constitutional grounds.

The Federal Constitution has now been invoked in a suit instituted in the Federal court at Greenville, the complaint declaring the use of public funds to compete with private industry to be unconstitutional.

The Federal Power Commission has granted Greenwood county's application for a license, according to the *Associated Press*.

Tennessee

Memphis Votes TVA Bonds

Memphians voted overwhelmingly at the recent election to allow the city to issue bonds up to $9,000,000 with which to acquire a distributing plant for TVA electric power, according to the Associated Press.

Complete returns from the city's 91 precincts showed 32,623 votes for the proposal and 1,858 against it, a majority of almost 18 to 1.

David E. Lilienthal, TVA power director, announced that a power allocation of 50,000 kilowatts had been made for Memphis, to be available upon completion of the Norris dam, according to the *Nashville Banner*.

"This 50,000 kilowatts," he said, "represents a substantial portion of the total in-

creased power that will be made available by completion of the Norris dam."

Power generated by Norris dam will supplement that already available from Wilson dam.

The Memphis Power & Light Company made no active campaign against the referendum. However, it asked the city commission for a postponement of the election date on the ground that it wanted more time to analyze a report of R. W. Husselman, consulting engineer, in which he recommended TVA power distributed through a municipal plant here.

Texas

Three Public Power Projects Approved

COLORADO Valley Authority bill, finally passed by the state house of representatives 75 to 40, will become effective as a law next February 9th, according to *The Austin American*. Preliminary work in preparation for securing an allotted $4,500,000 public works loan for completion of Buchanan (Hamilton) dam is reported to be under way.

Governor Ferguson at the same time signed a bill already approved by the legislature which authorized a public power development on the Brazos river. The Public Works Administration in Washington had previously approved a contract for the construction of the Red Bluff dam on the Pecos river, largest single PWA project in Texas. The Pecos development will cost in the neighborhood of $1,330,000.

Virginia

Election on Utility Issue

DANVILLE has filed in the court of appeals in Richmond a petition for a mandamus to compel Judge Henry Leigh of the corporation court of Danville to issue a writ of election on the Pinnacles hydroelectric bond issue question.

Judge Leigh recently declined to issue such a writ on the grounds that another election within a year on the matter which was voted on and defeated at the polls last February would be illegal. Proponents contend that in view of changes in the terms of the bond issue proposal, which is for $2,225,000, it constitutes a new proposition.

The money would be used together with a Federal grant for the construction of a hydroelectric plant in Patrick county, the plan decided on by city officials after the local municipal steam plant had been found inadequate for the city's needs.

Washington

Bone Bill Aids Ross Plan

PASSAGE of the Bone Power Bill at the November 6th election has been hailed by J. D. Ross, city lighting superintendent, as "an encouraging sign" for his plan to expand Seattle city light operations throughout the state through purchase of Puget Sound Power & Light Co. property for $95,000,000.

The vote in 2,082 of 2,835 precincts in the state gave 145,144 for the Bone Power Bill (Referendum No. 18) and 110,352 against.

West Virginia

City Asks Rate Case Costs

EFFORTS will be made by the city of Charleston, and if possible in coöperation with Huntington, to obtain from the United Fuel Gas Company the refund of the gas rate costs expended by the cities in their fight against the proposed increase in rates, according to a statement in *The Charleston Gazette*.

The Wheeling rate decision of the West Virginia Supreme Court gives the public service commission the right to demand a reasonable refund from the gas company to meet the expenses provided the city is substantially successful in its fight to prevent a rate increase.

The Latest Utility Rulings

New York Appellate Court Disapproves Commission Valuation Theories

THE appellate division of the New York Supreme Court has annulled the decision of the public service commission that the Yonkers Railroad Company should not be allowed to increase fares on its street railway lines in the city of Yonkers. The court's action is based largely on disagreement with the commission concerning the method of valuation.

Property used and useful, whether owned by the company or leased, must be included in the rate base, it is held, under the provision of the statute that the rate shall be fixed upon the value of the property actually used in the public service. Cars actually used in public service are to be included in the rate base, and the rental paid for their use is to be excluded from operating expenses. Mr. Justice Rhodes concurred in the opinion that the commission decision should be reversed, but disagreed with the court's treatment of rented property. He construed the law as requiring the inclusion in the rate base of property used and useful only when owned by the operating company. His view was that the company had invested or expended only the amount of the rentals paid, and such rentals constituted all of the property of the company devoted to public use in relation to such cars and equipment.

The court adopted the theory that the commission was empowered only to find the actual value of the property actually used, and that it had no power to eliminate going value because the street railways are fast losing ground and lines are being abandoned and busses taking their places. So also in the matter of reproduction cost, the court declared that the commission must consider the reproduction cost of the property regardless of the commission's opinion that such a property would not be reproduced.

The rule announced by the United States Supreme Court in the United Railways & Electric Company Case was followed in determining that annual depreciation must be based upon the present value of the property rather than upon the original cost, Mr. Justice Crapser stating:

> One of the items of expense to be ascertained and deducted is the amount necessary to restore property worn out or impaired, so as to continually maintain it as nearly as practicable at the same level of efficiency for the public service. The amount set aside periodically for this purpose is the so-called depreciation allowance. Manifestly, this allowance cannot be limited by the original cost, because if values have advanced the allowance is not sufficient to maintain a level of efficiency. The utility is entitled to see that from earnings the value of the property invested is kept unimpaired, so that, at the end of any given term of years the original investment remains as it was at the beginning. This naturally calls for expenditures equal to the cost of the worn-out equipment at the time of replacement; and this, for all practical purposes means present value. It is a settled rule of this court that the rate base is present value, and it would be wholly illogical to adopt a different rule for depreciation.

The rule was stated by the court that the estimated original cost or assumed historical cost cannot be made a basis for the determination of the rate base in a case where the greatest proportion of the property was built or acquired prior to the rise in prices occasioned by the World War. It was said that in order for such costs to be considered as affecting the rate base the original cost of the plant must in some

way be comparable to present-day costs.

The failure of the commission to make an allowance for working capital, on the theory that the company's money was all cash money and that it would have the money in hand to meet its obligations before they were incurred, was criticized. It was said:

> It is necessary for the company to have on hand some certain amount of money for a balance to pay for accident claims and other contingencies that may arise, and the elimination of any working capital was without justification.

Yonkers Railroad Co. v. New York Public Service Commission.

Synthetic Overheads Not Allowed in Place of Book Charges

An attempt to substitute for overhead costs actually charged concurrently to capital at the time property was constructed or acquired what, in the opinion of a witness, certain items must have cost, failed in a recent proceeding before the New York commission. Chairman Maltbie, of the commission, discussed the overhead question under the heading "Actual *vs.* Synthetic Overheads."

The procedure followed by the witness for the company was to eliminate certain items purporting to be the amounts actually charged for overheads such as engineering, legal fees, superintendence, taxes, and interest during construction, and then to add what, in his opinion, must have been expended for such items.

The first question raised, said Commissioner Maltbie, was whether the witness had eliminated all of the overheads for which he added amounts later. It did not appear to the commission that all of such overheads had been eliminated from the total construction charges appearing on the company books.

Where property had been acquired by the company as, for example, a general office building which it had purchased, the witness assumed that there were some overheads which had been paid by the seller which had not been charged to the public utility purchasing the property. Chairman Maltbie said that it was hardly conceivable that this could be true, and, moreover, there was no proof that such was the fact.

Other estimates of overheads, it was pointed out, could be supported only on the assumption that certain items in past years had been charged to the operating expense account rather than to the capital account. In this connection Chairman Maltbie said:

> In such case, they would appear as such in the sworn reports to the commission; and when an officer of the company verified these reports year by year, he certified to the commission that the true operating expenses of the company during the period covered were as shown in those reports. If, therefore, the company, year after year, included in operating expenses, costs which should have been charged to capital, they filed and certified to inaccurate statements, and this was done not merely in one year but year after year over a long period of time.

The conclusion was reached that a company cannot consistently treat such items as operating expenses and then, without any adjustment of the operating expense accounts and the resulting income, transfer the same items to capital account in order to increase the rate base. *Re Yonkers Electric Light & Power Co. (Case No. 7606).*

Management Fees Must Be on Basis of Service Rendered

Commissioner Charles M. Thomas of Oregon has ordered the abrogation of all existing contracts between the California-Oregon Power Company,

the Mountain States Power Company, and the Byllesby Engineering & Management Corporation calling for payments for managerial services. He has ordered that as a substitute for the contract payments the holding company be compensated only for actual services performed.

The purpose of the order is said to be the elimination of stipulated payments agreed upon by companies closely affiliated so that managerial services will be compensated in the same way that an independent company would compensate attorneys or consulting engineers for specific services rendered. The commissioner is of the opinion that the community of interests created between the companies prevents freedom of bargaining, and while the contracts may not be void, they are voidable. He expresses the opinion that the burden rests entirely on the parties to the contracts to prove the reasonableness of every step involved therein.

The order provides that subsequent to January 1, 1935, and within a reasonable period thereafter, the Byllesby Engineering & Management Corporation shall enter into new contracts with its Oregon affiliates that conform to the principles enunciated by the commission, and these shall specifically provide:

(a) That the services covered therein are actually to be rendered;

(b) That only such services are to be furnished as are valuable to the operating company;

(c) That all charges for such services are to be made on the basis and in the form provided for in the contract approved by this commission;

(d) That all payments for services furnished by such management and engineering company shall be subject to the inspection of the commission's staff.

Re California-Oregon Power Co. et al.

Validity of Operation by Federal Power Authority Is Question for Courts

The Tennessee commission in approving the sale of property to the Tennessee Valley Authority has confined itself strictly to the question whether the public interest would be served. All questions relating to constitutional and statutory powers, the resulting effect upon state jurisdiction, and the rights of stockholders of the selling corporation are reserved for determination by the courts.

Objectors to commission approval of the contract for the transfer of the property of the Tennessee Public Service Company to the Power Authority urged that the act of Congress creating the Tennessee Valley Authority was unconstitutional and that Congress could not constitutionally or lawfully confer jurisdiction upon the Authority or any other governmental agency authorizing it to engage in a proprietary function of the character contemplated, and, furthermore, that the act of Congress did not by its terms authorize the Authority to engage in the retail distribution and sale of electricity or to expend funds of the United States for the purchase of any electrical distribution system.

It was urged that the Federal Authority could not accept as grantee a deed to any real estate or personal property embraced within electrical distribution systems. These and other legal questions were held to be outside the province of the commission as an administrative body.

Sweeping aside legal questions, the commission determined that the Federal Power Authority and subsequently municipalities which might acquire the property could furnish adequate service at reasonable rates. The proposed rates are lower than those which were charged by the utility company. *Re Tennessee Public Service Co.* (*Docket No. 1865*).

Street Car Token Sales Must Accommodate the Poor

THE Minnesota commission has ordered, for a trial period of four months, the sale of two tokens for 15 cents by the Twin City rapid transit companies. The order does not affect present transfer privileges and it permits six tokens to be sold for 45 cents as has been the practice of the companies in the past.

Commissioner Laurisch, in a statement accompanying the order, expressed the hope that the 2-for-15-cent token fare will aid in eliminating dangers involved in hitch-hiking by school children seeking transportation by private cars. He asked the public to coöperate with the commission and street car companies in making the new fare permanent.

The St. Paul and Minneapolis railway companies opposed any rate except six tokens for 45 cents or 10-cent cash fare. They were supported by the Amalgamated Association of Street and Electric Railway and Motor Coach Employees of America, and by the president of the Minnesota Federation of Labor, who contended that should the revenues of the transit company decline employees might suffer a loss in wages. The Citizens League of Public Utilities of Minnesota and the Brotherhood of Locomotive Firemen and Engineers favored the 2-for-15-cent rate. They contended it would result in an increased number of passengers.

The commissioners said they did not believe that any revenue would be lost, but that more passengers would ride the street cars under the new rate, and they asserted there was no reason why the poor should be penalized for a short car ride at a 33⅓ per cent higher rate than those investing in six tokens for 45 cents. It was said in part:

> Even if the new rate should prove a loss of revenue for the company and result in a lesser return to stockholders, is it not fair and reasonable in times of depression as serious as now exist to give the car-riding public the fullest opportunity to make use of the facilities of the local street railway transportation systems?
>
> Public utilities, including street car systems, are given franchises on the basis of public convenience and necessity, not primarily that their operation may show a good monetary return on the investment to the stockholders.
>
> In times of emergency dividends paid to stockholders become a matter of secondary importance, but even the poorest of the poor should have a right to enjoy utilities facilities for service at a rate of pay as low as that enjoyed by those who are more happily situated.

Re St. Paul City Railway Co. et al.

Telephone Company Must Furnish Pick-up Circuits for Radio Broadcaster

THE Jamestown Telephone Corporation has been required by the New York commission to submit to the commission for its approval tariff rates, charges, and regulations applicable to the furnishing of radio program pick-up circuits. The commission held that this company, with its extensive wire facilities in and around Jamestown, was the logical one to provide such circuits, and that it had such a duty and responsibility.

Complaint had been made to the commission against the refusal of the company to furnish service to the owner of a studio and broadcasting station. The commission held that the company was justified in enforcing its rule that attachments to telephone circuits of apparatus or equipment not furnished by the telephone company should not be used. The subscriber had substituted a light-operating relay in place of a bell, but the commission decided that if he desired to operate such a relay he should make application to the telephone company for such apparatus, and the telephone company should furnish